KEYCORP /NEW/
Form 10-K
February 24, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[ü] Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2010

or

[ ] Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

Ohio **State or other jurisdiction of incorporation or organization:**	**34-6542451** **IRS Employer Identification Number:**
127 Public Square, Cleveland, Ohio **Address of Principal Executive Offices:**	**44114**

(216) 689-3000

Registrant s Telephone Number, including area code:

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value (Common Shares)	New York Stock Exchange
7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange
5.875% Trust Preferred Securities, issued by KeyCorp Capital V, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
	New York Stock Exchange[2]

6.125% Trust Preferred Securities, issued by KeyCorp Capital VI, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	
7.000% Enhanced Trust Preferred Securities, issued by KeyCorp Capital VIII, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
6.750% Enhanced Trust Preferred Securities, issued by KeyCorp Capital IX, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
8.000% Enhanced Trust Preferred Securities, issued by KeyCorp Capital X, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]

1 The Subordinated Debentures and the Guarantee are issued by KeyCorp. The Trust Preferred Securities and the Enhanced Trust Preferred Securities are issued by the individual trusts.

2 The Subordinated Debentures and Guarantee of KeyCorp have been registered on the New York Stock Exchange only in connection with the trading of the Trust Preferred Securities and the Enhanced Trust Preferred Securities and not for independent trading.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ü

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ü

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ü	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ü

The aggregate market value of voting stock held by nonaffiliates of the Registrant is approximately $6,771,158,151 (based on the June 30, 2010, closing price of Common Shares of $7.69 as reported on the New York Stock Exchange).

As of February 22, 2011, there were 880,468,918 Common Shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

KEYCORP

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PART I

ITEM 1. BUSINESS

Forward-looking Statements

From time to time, we have made or will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal, objective, plan, expect, anticipate, intend, project, believe, estimate, or other words of similar meaning. Forward-looking statements pro our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the SEC. In addition, we may make forward-looking statements orally to analysts, investors, representatives of the media and others.

Forward-looking statements are not historical facts and, by their nature, are subject to assumptions, risks and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ from those described in forward-looking statements include, but are not limited to:

indications of an improving economy may prove to be premature;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) will subject us to a variety of new and more stringent legal and regulatory requirements;

changes in local, regional and international business, economic or political conditions in the regions where we operate or have significant assets;

changes in trade, monetary and fiscal policies of various governmental bodies and central banks could affect the economic environment in which we operate;

our ability to effectively deal with an economic slowdown or other economic or market difficulty;

adverse changes in credit quality trends;

our ability to determine accurate values of certain assets and liabilities;

reduction of the credit ratings assigned to KeyCorp and KeyBank;

adverse behaviors in securities, public debt, and capital markets, including changes in market liquidity and volatility;

changes in investor sentiment, consumer spending or saving behavior;

our ability to manage liquidity;

our ability to anticipate interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;

unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;

changes in foreign exchange rates;

limitations on our ability to return capital to shareholders and potential dilution of our Common Shares as a result of the United States Department of the Treasury s (the U.S. Treasury) investment under the terms of its Capital Purchase Program (the CPP);

adequacy of our risk management program;

increased competitive pressure due to consolidation;

other new or heightened legal standards and regulatory requirements, practices or expectations;

our ability to timely and effectively implement our strategic initiatives;

increases in Federal Deposit Insurance Corporation (the FDIC) premiums and fees;

unanticipated adverse affects of acquisitions and dispositions of assets, business units or affiliates;

our ability to attract and/or retain talented executives and employees;

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operational or risk management failures due to technological or other factors;

changes in accounting principles or in tax laws, rules and regulations;

adverse judicial proceedings;

occurrence of natural or man-made disasters or conflicts or terrorist attacks disrupting the economy or our ability to operate; and

other risks and uncertainties summarized in Part 1, Item 1A: Risk Factors in this report.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including our reports on Forms 8-K, 10-K and 10-Q and our registration statements under the Securities Act of 1933, as amended, all of which are accessible on the SEC s website at www.sec.gov and on our website at www.Key.com/IR.

Overview

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a bank holding company under the Bank Holding Company Act of 1956, as amended (BHCA), and are one of the nation s largest bank-based financial services companies, with consolidated total assets of $91.8 billion at December 31, 2010. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance and investment banking products and services to individual, corporate and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2010, these services were provided across the country through KeyBank s 1,033 full-service retail banking branches in fourteen states, additional offices, a telephone banking call center services group and a network of 1,531 automated teller machines (ATMs) in fifteen states. Additional information pertaining to our two business segments is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), in the Line of Business Results section, and in Note 21 (Line of Business Results) of the Notes to the Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 15,610 full-time equivalent employees for 2010.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products, and international banking services. Through our bank, trust company and registered investment adviser subsidiaries, we provide investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high-net-worth individuals and multi-employer trust funds established for providing pension or other benefits to employees.

We provide other financial services both within and outside of our primary banking markets through various nonbank subsidiaries. These services include principal investing, community development financing, securities underwriting and brokerage, and merchant services. We also are an equity participant in a joint venture that provides merchant services to businesses.

KeyCorp is a legal entity separate and distinct from its banks and other subsidiaries. Accordingly, the right of KeyCorp, its security holders and its creditors to participate in any distribution of the assets or earnings of its banks and other subsidiaries is subject to the prior claims of the creditors of such banks and other subsidiaries, except to the extent that KeyCorp s claims in its capacity as a creditor may be recognized.

Additional Information

A comprehensive list of acronyms and abbreviations used throughout this report is included in Note 1 (Summary of Significant Accounting Policies) in Item 8 of this report.

The following financial data is included in this report in the MD&A and Item 8. Financial Statements and Supplementary Data are incorporated herein by reference as indicated below:

Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is www.Key.com, and the investor relations section of our website may be reached through www.key.com/ir. We make available free of charge, on or through the investor relations links on our website, annual reports on Form 10-K, quarterly reports on Form 10-Q ,and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the SEC). Also posted on our website, and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Management Committee; our Corporate Governance Guidelines; the Code of Ethics governing our directors, officers and employees; our Standards for Determining Independence of Directors; and our Limitation on Luxury Expenditures Policy. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-1113, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

Acquisitions and Divestitures

The information presented in Note 13 (Acquisition, Divestiture, and Discontinued Operations) is incorporated herein by reference.

Competition

The market for banking and related financial services is highly competitive. KeyCorp and its subsidiaries (Key) compete with other providers of financial services, such as bank holding companies, commercial banks, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional and national institutions that offer financial services. Many of our competitors enjoy fewer regulatory constraints and some may have lower cost structures. The financial services industry is likely to become more competitive as further technology advances enable more companies to provide financial services. Technological advances may diminish the importance of depository institutions and other financial institutions. We compete by offering quality products and innovative services at competitive prices, and by maintaining our products and services offerings to keep pace with customer preferences and industry standards.

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. Consolidation continued during 2010 and led to redistribution of deposits and certain banking assets to larger financial institutions. Financial institutions with liquidity challenges sought mergers and the deposits and certain banking assets of the 157 banks that failed during 2010, representing $96.7 billion in total assets, were redistributed through the FDIC s least-cost resolution process. These factors have intensified the concentration of the industry over the last few years and placed increased competitive pressure on Key s core banking products and services.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies, financial holding companies and their subsidiaries and provides certain specific information regarding material elements of the regulatory framework applicable to us. This regulatory framework is intended primarily to protect customers and depositors, the Deposit Insurance Fund (the DIF) of the FDIC and the banking system as a whole, rather than for the protection of security holders and creditors. We cannot necessarily predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition or results of operations.

General

As a bank holding company, KeyCorp is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve) under the BHCA. Pursuant to the BHCA, bank holding companies may not, in general, directly or indirectly acquire the ownership or control of more than 5% of the voting shares, or substantially all of the assets, of any bank, without the prior approval of the Federal Reserve. In addition, bank holding companies are generally prohibited from engaging in commercial or industrial activities.

Our bank subsidiaries are also subject to extensive regulation, supervision and examination by applicable federal banking agencies. We operate one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary whose activities are limited to those of a fiduciary. Both of our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the OCC). Because domestic deposits in KeyBank are insured (up to applicable limits) and certain debt obligations of KeyBank and KeyCorp are temporarily guaranteed by the FDIC, the FDIC also has certain regulatory and supervisory authority over KeyBank and KeyCorp under the Federal Deposit Insurance Act (the FDIA).

We also have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. For example, our brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, the Financial Industry Regulatory Authority and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

Capital Actions, Dividend Restrictions and the Supervisory Capital Assessment Program

On November 14, 2008, KeyCorp sold $2.5 billion of Fixed-Rate Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock) and a warrant to purchase 35,244,361 common shares, par value $1.00 (the Warrant), to the U.S. Treasury in conjunction with its CPP. The terms of the transaction with the U.S. Treasury include limitations on our ability to pay dividends and repurchase Common Shares. For three years after the issuance or until the U.S. Treasury no longer holds any Series B Preferred Stock, we will not be able to increase our dividends above the level paid in the third quarter of 2008, nor will we be permitted to repurchase any of its Common Shares or preferred stock without the approval of the U.S. Treasury, subject to the availability of certain limited exceptions (e.g., for purchases in connection with benefit plans).

The Federal Reserve advised in its Supervisory Letter SR 09-4 (revised March 27, 2009) that recipients of CPP funds should communicate reasonably in advance with Federal Reserve staff concerning how any proposed dividends, capital redemptions and capital repurchases are consistent with the requirements of CPP, and related Federal Reserve supervisory policy. Furthermore, the Federal Reserve s Revised Temporary Addendum to SR 09-4 issued in November 2010 (the Revised Addendum), outlined its Supervisory Capital Assessment Program (SCAP) expectations, and clarified that SCAP bank holding companies (BHCs) planned capital actions, including plans to repay any outstanding U.S. government investment in common or preferred shares, requests to increase common stock dividends, reinstate or increase common stock repurchase programs, or make other capital distributions, would be evaluated as part of the supervisory assessment. As with all of the nineteen SCAP BHCs, should we seek to raise our Common Shares dividend following any repayment of the U.S. Treasury, we must consult with the Federal Reserve and demonstrate that such actions are consistent with existing supervisory guidance.

Federal banking law and regulations also limit the amount of dividends that may be paid to us by our bank subsidiaries without regulatory approval. Historically, dividends paid to us by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on our equity securities and interest on its debt. The approval of the OCC is required for the payment of any dividend by a national bank if the total of all dividends declared by the board of directors of such bank in any calendar year would exceed the total of: (i) the bank s net income for the current year plus (ii) the retained net income (as defined and interpreted by regulation) for the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. In addition, a national bank can pay dividends only to the extent of its undivided profits. Our national bank subsidiaries are subject to these restrictions. During 2010, KeyBank did not pay any dividends to us; nonbank subsidiaries paid us a total of $25 million in dividends. During 2010, KeyBank could not pay dividends to us without prior regulatory approval because KeyBank s net losses of $1.151 billion for 2009 and $1.161 billion for 2008 exceeded KeyBank s net income during 2010. We made capital infusions of $100 million and $1.2 billion for 2010 and 2009, respectively, into KeyBank in the form of cash. At December 31, 2010, we held $3.3 billion in short-term investments, which can be used to pay dividends, service debt, and finance corporate operations.

If, in the opinion of a federal banking agency, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), the agency may require that such institution cease and desist from such practice. The OCC and the FDIC have indicated that paying dividends that would deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound practice. Moreover, under the FDIA, an insured depository institution may not pay any dividend: (i) if payment would cause it to become less than adequately capitalized or (ii) while it is in default in the payment of an assessment due to the FDIC. For additional information on capital categories see the Regulatory Capital Standards and Related Matters Prompt Corrective Action section below. Also, the federal banking agencies have issued policy statements that provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings.

SCAP

The Federal Reserve s Revised Addendum related to the conduct of SCAP for 2011 requested that each SCAP BHC submit its Comprehensive Capital Plan by January 7, 2011. The Comprehensive Capital Plan requirements include, among other things:

- the incorporation of stress testing with a minimum planning horizon of 24 months;
- a review of planned capital actions and pro forma estimates;
- management s plans for addressing proposed revisions to the regulatory capital framework agreed to by the Basel Committee;
- a transition plan with pro forma estimates of regulatory capital ratios under the Basel III framework over the phase-in period; and
- detail supporting the actions and assumptions to be taken over the entire period necessary for the BHC to meet the fully phased-in 7% Tier 1 common equity target.

Pursuant to the Dodd-Frank Act, the Federal Reserve is required beginning in 2012 to perform an annual supervisory assessment of certain covered BHCs and non-banks, and these same financial companies will be required to conduct semi-annual stress tests. Currently, we conduct stress testing on a quarterly basis. The Dodd-Frank Act also requires the Federal Reserve to issue regulations concerning its supervisory assessment and stress testing by January 2012, which must: (1) prescribe that three scenarios be used in the stress test baseline, adverse, and severely adverse; (2) establish the methodologies for the conduct of the test; (3) establish the form and content of the report required to be submitted to the Federal Reserve and the financial institution s primary regulator; and (4) require companies to publish a summary of the required stress test. These regulations have yet to be issued.

Holding Company Structure

Bank Transactions with Affiliates. Federal banking law and the regulations promulgated thereunder impose qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates. Transactions covered by these provisions must be on arm s length terms, and cannot exceed certain amounts, determined with reference to the bank s regulatory capital. Moreover, if a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute. These provisions materially restrict the ability of KeyBank, as a bank, to fund its affiliates including KeyCorp, KeyBanc Capital Markets Inc., any of the Victory mutual funds, and KeyCorp s nonbanking subsidiaries engaged in making merchant banking investments.

Source of Strength Doctrine. Under the Dodd-Frank Act and long-standing Federal Reserve policy, a bank holding company is expected to serve as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank. This support may be required at a time when we may not have the resources to, or would choose not to, provide it. Certain loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the event of a bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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Regulatory Capital Standards and Related Matters

Risk-Based and Leverage Regulatory Capital. Federal law defines and prescribes minimum levels of regulatory capital for bank holding companies and their bank subsidiaries. Adequacy of regulatory capital is assessed periodically by the federal banking agencies in the examination and supervision process, and in the evaluation of applications in connection with specific transactions and activities, including acquisitions, expansion of existing activities and commencement of new activities.

Bank holding companies are subject to risk-based capital guidelines adopted by the Federal Reserve. These guidelines establish minimum ratios of qualifying capital to risk-weighted assets. Qualifying capital includes Tier 1 capital and Tier 2 capital. Risk-weighted assets are calculated by assigning varying risk-weights to broad categories of assets and off-balance sheet exposures, based primarily on counterparty credit risk. The required minimum Tier 1 risk-based capital ratio, calculated by dividing Tier 1 capital by risk-weighted assets, is currently 4.00%. The required minimum total risk-based capital ratio is currently 8.00%. It is calculated by dividing the sum of Tier 1 capital and Tier 2 capital (which cannot exceed the amount of Tier 1 capital), after certain deductions, by risk-weighted assets.

Tier 1 capital includes common equity, qualifying perpetual preferred equity (including the Series A Preferred Stock and the Series B Preferred Stock), and minority interests in the equity accounts of consolidated subsidiaries less certain intangible assets (including goodwill) and certain other assets. Tier 2 capital includes qualifying hybrid capital instruments, perpetual debt, mandatory convertible debt securities, perpetual preferred equity not includable in Tier 1 capital, limited amounts of term subordinated debt, and medium-term preferred equity, certain unrealized holding gains on certain equity securities, and the allowance for loan and lease losses, limited as a percentage of net risk-weighted assets.

Bank holding companies, whose securities and commodities trading activities exceed specified levels also are required to maintain capital for market risk. Market risk includes changes in the market value of trading account, foreign exchange, and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices) or from position specific factors (such as idiosyncratic variation, event risk, and default risk).

On January 11, 2011, the federal banking agencies published a proposal to revise their market risk capital rules. The proposal would modify the scope of such rules to better capture positions for which the market risk capital rules are appropriate, reduce pro-cyclicality in market risk capital requirements, enhance the rules sensitivity to risks that are not adequately captured under the current regulatory measurement methodologies, and increase transparency through enhanced disclosures. The proposal does not include the methodologies adopted by the Basel Committee on Banking Supervision (the Basel Committee) for calculating the specific risk capital requirements for debt and securitization positions because those methodologies relay on credit ratings, which is impermissible under the Dodd-Frank Act. Consequently, the proposal retains the current specific risk treatment for these positions until the agencies develop alternative standards of creditworthiness as required by the Dodd-Frank Act. At December 31, 2010, we had regulatory capital in excess of all minimum risk-based requirements, including all required adjustments for market risk.

In addition to the risk-based standards, bank holding companies are subject to the Federal Reserve s leverage ratio guidelines. These guidelines establish minimum ratios of Tier 1 risk-based capital to total assets. The minimum leverage ratio, calculated by dividing Tier 1 capital by average total consolidated assets, is 3.00% for bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve s risk-based capital measure for market risk. All other bank holding companies must maintain a minimum leverage ratio of at least 4.00%. At December 31, 2010, Key had regulatory capital in excess of all minimum leverage capital requirements, and satisfied the SCAP requirements set forth in supervisory guidance.

Our national bank subsidiaries are also subject to risk-based and leverage capital requirements adopted by the OCC, which are substantially similar to those imposed by the Federal Reserve on bank holding companies. At December 31, 2010, each of our national bank subsidiaries had regulatory capital in excess of all minimum risk-based and leverage capital requirements.

In addition to establishing regulatory minimum ratios of capital to assets for all bank holding companies and their bank subsidiaries, the risk-based and leverage capital guidelines also identify various organization-specific factors and risks that are not taken into account in the computation of the capital ratios but that affect the overall supervisory evaluation of a banking organization s regulatory capital adequacy and can result in the imposition of higher minimum regulatory capital ratio requirements upon the particular organization. Neither the Federal Reserve nor the OCC has advised us or any of our national bank subsidiaries of any specific minimum risk-based or leverage capital ratios applicable to us or such national bank subsidiary.

Prompt Corrective Action. The federal banking agencies are required to take prompt corrective action in respect of depository institutions, that do not meet minimum capital requirements under federal law. Such prompt corrective action includes imposing progressively more restrictions on operations, management, and capital distributions as an institution s capital decreases. FDIC-insured depository institutions are grouped into one of five prompt corrective action capital categories well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized using the Tier 1 risk-based, total risk-based, and Tier 1 leverage capital ratios as the relevant capital measures. An institution is considered well

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capitalized if it has a total risk-based capital ratio of at least 10.00%, a Tier 1 risk-based capital ratio of at least 6.00% and a Tier 1 leverage capital ratio of at least 5.00% and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure. At December 31, 2010, KeyBank was well capitalized under the prompt corrective action standards. Federal law also requires that the bank regulatory agencies implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more restrictions on operations, management and capital distributions.

Bank holding companies are not grouped into any of the five capital categories applicable to insured depository institutions. If such categories applied to bank holding companies, we believe that KeyCorp would satisfy the well capitalized criteria at December 31, 2010. An institution s prompt corrective action capital category, however, may not constitute an accurate representation of the overall financial condition or prospects of the institution or parent bank holding company, and should be considered in conjunction with other available information regarding the financial condition and results of operations of the institution and its parent bank holding company.

Basel Accords

Overview

The current minimum risk-based capital requirements adopted by the U.S. federal banking agencies are based on a 1988 international accord (Basel I) that was developed by the Basel Committee. In 2004, the Basel Committee published a new capital framework document (Basel II) governing the capital adequacy of large, internationally active banking organizations that generally rely on sophisticated risk management and measurement systems. Basel II is designed to create incentives for these organizations to improve their risk measurement and management processes and to better align minimum capital requirements with the risks underlying their activities.

Basel II adopts a three-pillar framework for addressing capital adequacy minimum capital requirements, supervisory review, and market discipline. In December 2007, U.S. federal banking regulators issued a final rule for Basel II implementation, requiring banks with over $250 billion in consolidated total assets or on-balance sheet foreign exposure of $10 billion (core banks) to adopt the advanced approach of Basel II while allowing other institutions to elect to opt-in. Currently, neither KeyCorp nor KeyBank is required to apply this final rule.

Basel III Capital Framework

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III is a comprehensive set of reform measures designed to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks transparency and disclosures. Basel III requires higher and better-quality capital, better risk coverage, the introduction of an international leverage ratio as a backstop to the risk-based requirement, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards.

The Basel III final capital framework, among other things:

- introduces as a new capital measure, common equity Tier 1, and specifies that Tier 1 capital consists of common equity Tier 1 and additional Tier 1 capital instruments meeting specified requirements;

when fully phased in on January 1, 2019, will require banks to maintain: (a) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which effectively results in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7%); (b) a Tier 1 capital to risk-weighted assets ratio of at least 6%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (c) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (d) a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter);

provides for a countercyclical capital buffer , generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a common equity Tier 1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%); and

- the capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the short fall.

The implementation of the Basel III final capital framework will commence January 1, 2013. On that date, banks with regulators adopting these standards in full would be required to meet the following minimum capital ratios 3.5% common equity Tier 1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% total capital to risk-weighted assets. The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III final framework provides for a number of new deductions from and adjustments to common equity Tier 1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from common equity Tier 1 to the extent that any one such category exceeds 10% of common equity Tier 1 or all such categories in the aggregate exceed 15% of common equity Tier 1. Implementation of the deductions and other adjustments to common equity Tier 1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year).

Basel III Liquidity Framework

The Basel III final liquidity framework requires banks to comply with two measures of liquidity risk exposure:

- the liquidity coverage ratio , based on a 30-day time horizon and calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days , which must be at least 100%; and

- the net stable funding ratio , calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding , which must be at least 100%.

Each of the components of these ratios is defined, and the ratio calculated, in accordance with detailed requirements in the Basel III liquidity framework. Although the Basel Committee has not asked for additional comment on these ratios, both are subject to observation periods and transitional arrangements. The Basel III liquidity framework provides specifically that revisions to the liquidity coverage ratio will be made by mid-2013, with such ratios being introduced as a requirement on January 1, 2015, revisions to the net stable funding ratio will be made by mid-2016, and the net stable funding ratio will be introduced as a requirement on January 1, 2018.

On January 13, 2011, the Basel Committee issued its final minimum requirements to ensure loss absorbency at the point non-viability document. It requires that all non-common Tier 1 and Tier 2 instruments (e.g., non-cumulative perpetual preferred stock and subordinated debt) issued by an internationally active bank must have a provision that such instruments, at the option of the relevant regulator, are to either be written-off or converted into common equity upon the occurrence of certain trigger events. The final loss absorbency requirements specify that instruments issued on or after January 1, 2013, must meet the new criteria to be included in regulatory capital. Instruments issued prior to January 1, 2013, that do not meet the criteria, but that meet all of the entry criteria for additional Tier 1 or Tier 2 capital, will be considered as instruments that no longer qualify as additional Tier 1 or Tier 2 capital and will be phased out from January 1, 2013 in accordance with the Basel III framework. These provisions are similar to the concept set forth in the Dodd-Frank Act of phasing out of trust preferred securities, cumulative preferred securities and certain other securities as Tier 1 capital over a three-year period beginning January 1, 2013, as well as the application of similar capital standards to BHCs as are currently applied to depository institutions.

The U.S. bank regulatory agencies have not yet set forth a formal timeline for a notice of proposed rulemaking or final adoption of regulations responsive to Basel III. However, they have indicated informally that a notice of proposed rulemaking likely will be released in mid-2011, with final amendments to regulations becoming effective in mid-2012. Given our strong capital position, we expect to be able to satisfy the Basel III capital framework should U.S. capital regulations corresponding to it be finalized. While we also have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits. U.S. regulators have indicated that they may elect to make certain refinements to the Basel III liquidity framework. Accordingly, at this point it is premature to assess the impact of the Basel III liquidity framework.

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Federal Deposit Insurance Act

Deposit Insurance Coverage Limits.

Throughout 2010, the FDIC standard maximum depositor insurance coverage limit was $250,000. This limit, which was made permanent by the Dodd-Frank Act, applies per depositor, per insured depository institution, for each account ownership category. Also under the Dodd-Frank Act, as amended by H.R. 6398, the FDIC is required to provide temporary unlimited coverage for qualifying noninterest-bearing transaction accounts, including Interest on Lawyers Trust Accounts. This temporary unlimited coverage is effective from December 31, 2010, through December 31, 2012.

Deposit Insurance Assessments

Substantially all of KeyBank s domestic deposits are insured up to applicable limits by the FDIC. The FDIC assesses an insured depository institution an amount for deposit insurance premiums equal to its deposit insurance assessment base times a risk-based assessment rate. Under the risk-based assessment system in effect during 2010, annualized deposit insurance premium assessments ranged from $.07 to $.775 for each $100 of assessable domestic deposits based on the institution s risk category. This system will remain in effect for the first quarter of 2011. In 2009, the FDIC amended its assessment regulations to require insured depository institutions to prepay, on December 30, 2009, their estimated quarterly assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. KeyBank s assessment prepayment was $539 million. For 2010, our FDIC insurance assessment was $124 million. As of December 31, 2010, we had $388 million of prepaid FDIC insurance assessment recorded on our balance sheet.

The Dodd-Frank Act requires the FDIC to change the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, and requires the DIF reserve ratio to increase to 1.35% by September 30, 2020, rather than 1.15% by December 31, 2016, as previously required. To implement these and other changes to the current deposit insurance assessment regime, the FDIC issued several proposed rules in 2010. On February 7, 2011, the FDIC adopted their final rule on assessments. Under the final rule, which is effective on April 1, 2011, KeyBank s annualized deposit insurance premium assessments would range from $.025 to $.45 for each $100 of its new assessment base, depending on its new scorecard performance incorporating KeyBank s regulatory rating, ability to withstand asset and funding related stress, and relative magnitude of potential losses to the FDIC in the event of KeyBank s failure. We estimate that our 2011 expense for deposit insurance assessments will be $60 to $90 million.

FICO Assessments

All FDIC-insured depository institutions have been required through assessments collected by the FDIC to service the annual interest on certain 30-year noncallable bonds issued by the Financing Corporation (FICO) to fund losses incurred in the 1980s by the former Federal Savings and Loan Insurance Corporation. For 2010, the annualized FICO assessment rate ranged from $.0104 to $.0106 for each $100 of assessable domestic deposits.

Temporary Liquidity Guarantee Program

In 2008, the FDIC implemented its Temporary Liquidity Guarantee Program (the TLGP). The TLGP has two components: a Debt Guarantee Program temporarily guaranteeing the unpaid principal and interest due under a limited amount of qualifying newly-issued senior unsecured debt of participating eligible entities, and a Transaction Account Guarantee providing a temporary guarantee of depositor funds in qualifying noninterest-bearing transaction accounts maintained at participating FDIC-insured depository institutions. For FDIC-guaranteed debt issued before April 1, 2009, the Debt Guarantee expires on the earlier of the maturity of the debt or June 30, 2012. For FDIC-guaranteed debt issued on or after April 1, 2009, the Debt Guarantee expires on the earlier of the maturity of the debt or

December 31, 2012. The Transaction Account Guarantee expired on December 31, 2010. As of December 31, 2010, KeyCorp had $687.5 million of guaranteed debt outstanding under the TLGP and KeyBank had $1.0 billion of guaranteed debt outstanding under the TLGP. KeyBank participated in the Transaction Account Guarantee component of the TLGP during the first half of 2010.

Liability of Commonly Controlled Institutions

Under the FDIA, an insured depository institution generally is liable to the FDIC for any loss incurred, or reasonably anticipated to be incurred, by the FDIC in connection with the default of any commonly controlled insured institution, or for any assistance provided by the FDIC to a commonly controlled institution that is in danger of default. The term default is defined generally to mean the appointment of a conservator or receiver and the term in danger of default is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

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Conservatorship and Receivership of Institutions

If any insured depository institution becomes insolvent and the FDIC is appointed its conservator or receiver, the FDIC may, under federal law, disaffirm or repudiate any contract to which such institution is a party if the FDIC determines that performance of the contract would be burdensome, and that disaffirmance or repudiation of the contract would promote the orderly administration of the institution s affairs. Such disaffirmance or repudiation would result in a claim by the other party to the contract against the receivership or conservatorship. The amount paid upon such claim would depend upon, among other factors, the amount of receivership assets available for the payment of such claim and the priority of the claim relative to the priority of others. In addition, the FDIC as conservator or receiver may enforce most contracts entered into by the institution notwithstanding any provision regarding termination, default, acceleration, or exercise of rights upon or solely by reason of insolvency of the institution, appointment of a conservator or receiver for the institution, or exercise of rights or powers by a conservator or receiver for the institution. The FDIC as conservator or receiver also may transfer any asset or liability of the institution without obtaining any approval or consent of the institution s shareholders or creditors.

Depositor Preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims by the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC will be placed ahead of unsecured, nondeposit creditors, including a parent holding company and subordinated creditors, in order of priority of payment.

Regulatory Reform Developments

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act is intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the United States, reduce the risks of bank failures and better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of systemically important financial companies (including nonbank financial companies). The Dodd-Frank Act implements numerous and far-reaching changes across the financial landscape affecting financial companies, including banks and bank holding companies such as Key. For a review of the various reform measures being taken as a result of the Dodd-Frank Act, we refer you to the risk factor on the Dodd-Frank Act on page 12 in Item 1A: Risk Factors.

The Dodd-Frank Act defers many of the details of its mandated reforms to future rulemakings by a variety of federal regulatory agencies. For further detail on the Dodd-Frank Act, see Pub. L. 111-203, H.R. 4173 (for the full text of the Act).

Entry Into Certain Covenants

We entered into two transactions during 2006 and one transaction (with an overallotment option) in 2008, each of which involved the issuance of trust preferred securities (Trust Preferred Securities) by Delaware statutory trusts formed by us (the Trusts), as further described below. Simultaneously with the closing of each of those transactions, we entered into a so-called replacement capital covenant (each, a Replacement Capital Covenant and collectively, the Replacement Capital Covenants) for the benefit of persons that buy or hold specified series of long-term indebtedness of KeyCorp or its then largest depository institution, KeyBank (the Covered Debt). Each of the Replacement Capital Covenants provide that neither KeyCorp nor any of its subsidiaries (including any of the Trusts) will redeem or purchase all or any part of the Trust Preferred Securities or certain junior subordinated debentures issued by KeyCorp and held by the Trust (the Junior Subordinated Debentures), as applicable, on or before the date specified in the applicable Replacement Capital Covenant, with certain limited exceptions, except to the extent that, during the 180 days prior to the date of that redemption or purchase, we have received proceeds from the sale of qualifying securities that (i) have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the Trust Preferred Securities or the Junior Subordinated Debentures, as applicable, at the time of redemption or purchase, and (ii) we have obtained the prior approval of the Federal Reserve, if such approval is then required by the Federal Reserve. We will provide a copy of the Replacement Capital Covenants to holders of Covered Debt upon request made in writing to KeyCorp, Investor Relations, 127 Public Square, Mail Code OH-01-27-1113, Cleveland, OH 44114-1306.

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The following table identifies the (i) closing date for each transaction, (ii) issuer, (iii) series of Trust Preferred Securities issued, (iv) Junior Subordinated Debentures, and (v) applicable Covered Debt as of the date this annual report was filed with the SEC.

Closing Date	Issuer	Trust Preferred Securities	Junior Subordinated Debentures	Covered Debt
6/20/2006	KeyCorp Capital VIII and KeyCorp	$250,000,000 principal amount of 7% Enhanced Trust Preferred Securities	KeyCorp s 7% junior subordinated debentures due June 15, 2066	KeyCorp s 5.70% junior subordinated debentures due 2035, underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)
11/21/2006	KeyCorp Capital IX and KeyCorp	$500,000,000 principal amount of 6.750% Enhanced Trust Preferred Securities	KeyCorp s 6.750% junior subordinated debentures due December 15, 2066	KeyCorp s 5.70% junior subordinated debentures due 2035, underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)
2/27/2008	KeyCorp Capital X and KeyCorp	$700,000,000 principal amount of 8.000% Enhanced Trust Preferred Securities	KeyCorp s 8.000% junior subordinated debentures due March 15, 2068	KeyCorp s 5.70% junior subordinated debentures due 2035, underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)
3/3/2008	KeyCorp Capital X and KeyCorp	$40,000,000 principal amount of 8.000% Enhanced Trust Preferred Securities	KeyCorp s 8.000% junior subordinated debentures due March 15, 2068	KeyCorp s 5.70% junior subordinated debentures due 2035 underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)

ITEM 1A. RISK FACTORS

An investment in our Common Shares or other securities is subject to risks inherent to our business, ownership of our securities and our industry. Described below are certain risks and uncertainties, the occurrence of which could have a material and adverse effect on us. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and practices aimed at mitigating these risks, uncertainties may nevertheless impair our business operations. This report is qualified in its entirety by these risk factors.

IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND/OR ACCESS TO LIQUIDITY AND/OR CREDIT COULD BE

MATERIALLY AND ADVERSELY AFFECTED (MATERIAL ADVERSE EFFECT ON US). IF THIS WERE TO HAPPEN, THE VALUE OF OUR SECURITIES COMMON SHARES, SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK, TRUST PREFERRED SECURITIES AND DEBT SECURITIES COULD DECLINE, PERHAPS SIGNIFICANTLY, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

Risks Related To Our Business

Our credit ratings affect our liquidity position.

On November 1, 2010, Moody s announced a ratings downgrade for ten large U.S. regional banks, including KeyBank, previously identified as benefiting from systemic support. Ratings for KeyBank s short-term borrowings, senior long-term debt and subordinated debt were downgraded one notch from P-1 to P-2, A2 to A3, and A3 to Baa1, respectively. In conjunction with the ratings changes, Moody s updated their ratings outlook on these ratings from Negative to Stable. The new ratings have breached minimum thresholds established by Moody s in connection with the securitizations that we service, and impact the ability of KeyBank to hold certain escrow deposit balances related to commercial mortgage securitizations serviced by us and rated by Moody s. These escrow deposit balances range from $1.50 to $1.85 billion. Since the downgrade, KeyBank has been in discussions with Moody s regarding an alternative investment vehicle for these funds that would be acceptable to Moody s and maintain the funds at KeyBank. Subsequent to Moody s announcement that was issued on January 19, 2011, Moody s indicated to KeyBank that these escrow deposit balances associated with our mortgage servicing operations will need to be moved to another financial institution which meets the minimum ratings threshold within the first quarter of 2011. As a result of this decision by Moody s, KeyBank has determined that moving these escrow deposit balances results in an immaterial impairment of these mortgage servicing assets. KeyBank expects to have ample liquidity reserves to offset the loss of these deposits and expects to remain in a strong liquidity position. Nevertheless, the ratings downgrade could decrease the number of investors and counterparties willing to lend to us.

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Our rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors, some of which are not entirely within our control, such as conditions affecting the financial services industry and the economy. In light of the difficulties in the financial services industry, the financial markets and the economy, there can be no assurance that we will maintain our current ratings.

If the securities of KeyCorp and/or KeyBank suffer additional ratings downgrades, such downgrades could adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, thereby reducing our ability to generate income. Further downgrades of the credit ratings of securities, particularly if they are below investment-grade, could have a Material Adverse Effect on Us.

The Federal Reserve has acknowledged the possibility of further recession and deflation. Should this occur, the financial services industry and our business could be adversely affected.

Despite the conclusion of the recession, the recovery of the U.S. economy continues to progress slowly; consumer confidence remains low, unemployment remains high at 9.4% for December 2010, and the housing market remains an important downside risk, with prices expected to fall through much of this year. Given the concerns about the U.S. economy, U.S. employers continue to approach hiring with caution, and as a result unemployment may rise. Furthermore, the Federal Open Market Committee communicated in its December 2010 statement that measures of underlying inflation have continued to trend downward. Monetary and fiscal policy measures, including the recent legislation formalizing the tax compromise between U.S. Congress and Senate members (the Tax Compromise), aimed at lowering the risk of a double-dip recession may be insufficient to strengthen the recovery, return unemployment to lower levels, and restore stability to the financial markets. Furthermore, Federal Reserve Chairman Bernanke and various governments in Europe have acknowledged the need to commence a shift from fiscal stimulus efforts to fiscal constraint to reduce government deficits. The recent Tax Compromise indicates that the shift in U.S. fiscal policy will be postponed, but only temporarily. A coordinated shift from fiscal stimulus to fiscal reductions could hinder the return of a robust global economy and cause instability in the financial markets. Various governments in Europe have announced budget reductions and/or austerity measures as a means to limit fiscal budget deficits as a result of the economic crisis. Additionally, many state and local governments in the U.S. have also implemented budget reductions. These factors could weaken the U.S. economic recovery. A weak U.S. economic recovery could have a Material Adverse Effect on Us. Should economic indicators not improve, the U.S. could face a further recession and deflation. Such economic conditions could affect us in a variety of substantial and unpredictable ways as well as affect our borrowers ability to meet their repayment obligations. These factors could have a Material Adverse Effect on Us.

The failure of the European Union to stabilize its weaker member economies, such as Greece, Portugal, Spain, Hungary, Ireland, and Italy, could have international implications affecting the stability of global financial markets and hindering the U.S. economic recovery.

On the eve of May 10, 2010, Greece was facing imminent default on its obligations. On May 10, 2010, finance ministers from the European Union announced a deal to provide $560 billion in new loans and $76 billion under an existing lending program to countries facing instability. The International Monetary Fund joined forces and announced that it was prepared to give $321 billion separately. The European Central Bank also announced that it would buy government and corporate debt, and the world s leading central banks, including the Federal Reserve, Bank of Canada, Bank of England, Bank of Japan, and Swiss National Bank, announced a joint intervention to make more dollars available for interbank lending. These and other monetary and fiscal policy efforts appear to have stabilized the European Union s weaker member economies. Nevertheless, should these monetary and fiscal policy measures be insufficient to restore stability to the financial markets, the recovery of the U.S. economy could be hindered or reversed, which could have a Material Adverse Effect on Us.

The Dodd-Frank Act subjects us to a variety of new and more stringent legal and regulatory requirements. Because the Dodd-Frank Act imposes more stringent regulatory requirements on the largest financial institutions, Key could be competitively disadvantaged.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act is intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the United States, reduce the risks of bank failures and better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of systemically important financial companies (including nonbank financial companies). Although many provisions remain subject to further rulemaking, the Dodd-Frank Act implements numerous and far-reaching changes across the

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financial landscape affecting financial companies, including bank and bank-holding companies such as Key, by, among other things:

Requiring regulation and oversight of large, systemically important financial institutions by establishing an interagency council, the Financial Stability Oversight Council (FSOC), to identify and manage systemic risk in the financial system, and requiring the implementation of heightened prudential standards and regulation by the Federal Reserve for systemically important financial institutions (including nonbank financial companies);

Applying prudential standards to large interconnected financial companies, including BHCs like us that have at least $50 billion in total consolidated assets and certain nonbanks regulated by the Federal Reserve. Such heightened prudential standards must include risk-based capital requirements, leverage limits, liquidity requirements, overall risk management requirements, resolution plan and credit exposure reporting, and concentration limits. They also may include a contingent capital requirement, enhanced public disclosures, short-term debt limits, and such other standards as the Federal Reserve, on its own or pursuant to FSOC recommendation, determines are appropriate;

Requiring that large interconnected financial companies with at least $50 billion in total assets prepare and maintain a rapid and orderly resolution plan, which must be approved by the Federal Reserve and the FDIC;

Creating a new federal receivership process pursuant to which the FDIC will serve as receiver for large, interconnected financial companies, including bank holding companies, whose failure poses a significant risk to the financial stability of the United States. All costs of an orderly liquidation are borne first by shareholders and unsecured creditors, and, if necessary, by risk-based assessments on large financial companies;

Applying the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, savings and loan holding companies and systemically important nonbank financial companies, which, among other things, will gradually exclude all trust preferred and cumulative preferred securities from Tier 1 capital, and may impose new capital and liquidity requirements consistent with the Basel III capital and liquidity frameworks;

Limiting the Federal Reserve s emergency authority to lend to nondepository institutions to facilities with broad-based eligibility, and authorizing the FDIC to establish an emergency financial stabilization fund for solvent depository institutions and their holding companies, subject to the approval of Congress, the U.S. Treasury Secretary and the Federal Reserve;

Centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the CFPB), with responsibility for implementing, examining and enforcing compliance with federal consumer financial laws, a number of which will be strengthened by provisions of the Dodd-Frank Act and the regulations promulgated thereunder;

Imposing new regulatory requirements and restrictions on federally insured depository institutions, their holding companies and other affiliates, as well as other systemically important nonbank financial companies, including the so-called Volcker Rule ban on proprietary trading and sponsorship of, and investment in hedge funds and private equity funds;

Creating regimes for regulation of over-the-counter derivatives and non-admitted property and casualty insurers and reinsurers. The regulation of over-the-counter derivatives shall include the so-called Lincoln push-out provision that effectively prohibits insured depository institutions from conducting certain derivatives businesses in the institution;

Requiring any interchange transaction fee charged for a debit transaction to be reasonable and proportional to the cost incurred by the issuer for the transaction, directing the Federal Reserve to prescribe new regulations establishing such fee standards, eliminating exclusivity arrangements between issuers and networks for debit card transactions, and imposing limits for restrictions on merchant discounting for the use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards;

Implementing regulation of hedge fund and private equity advisers by requiring that advisers that manage $150 million or more in assets to register with the SEC;

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Requiring issuers of asset-backed securities to retain some of the risk associated with the offered securities;

Providing for the implementation of corporate governance provisions for all public companies concerning proxy access and executive compensation;

Increasing the FDIC s deposit insurance limits permanently to $250,000 for non-transaction accounts, providing for unlimited federal deposit insurance on non-interest bearing demand transaction accounts at all insured depository institutions effective December 31, 2010 through December 31, 2012, and changing the assessment base from insured deposits to average consolidated assets less average tangible equity, eliminating the ceiling on the size of the DIF, increasing the reserve ratio for the DIF, and imposing assessments upon bank holding companies to support the cost of resolution and regulation of such entities required by the Dodd-Frank Act;

Reforming regulation of credit rating agencies, and requiring federal agencies to remove references to credit ratings as a measure of creditworthiness for, among other things, purposes of capital, analysis of credits, and liquidity; and

Repealing the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction accounts.

The Dodd-Frank Act defers many of the details of its mandated reforms to future rulemakings by a variety of federal regulatory agencies. While we cannot predict the effect of these various rulemakings which have yet to be issued, we do anticipate a variety of new and more stringent legal and regulatory requirements. Regulatory reform will likely place additional costs on larger financial institutions, may impede growth opportunities, and may place larger financial institutions at a competitive disadvantage in the market place. Additionally, reform could affect the behaviors of third parties that we deal with in the course of our business, such as rating agencies, insurance companies, and investors. Heightened regulatory practices, requirements or expectations resulting from the Dodd-Frank Act and the rules promulgated thereunder could affect us in substantial and unpredictable ways, and, in turn, could have a Material Adverse Effect on Us.

The Dodd-Frank Act provides for the phase-out beginning January 1, 2013, of trust preferred securities and cumulative preferred securities as eligible Tier 1 risk-based capital for purposes of the regulatory capital guidelines for bank holding companies.

Currently, our trust preferred and enhanced trust preferred securities represent 15% of our Tier 1 risk-based capital or $1.8 billion of our $11.8 billion of Tier 1 risk-based capital. By comparison, the U.S. Treasury s CPP investment, non-cumulative perpetual preferred securities, and our common equity represent 21%, 2% and 62%, respectively, of our Tier 1 risk-based capital, as of December 31, 2010. The anticipated phase-out (as eligible Tier 1 risk-based capital) of our trust preferred securities and enhanced trust preferred securities will eventually result in us having less of a capital buffer above the current well-capitalized regulatory standard of 6% of Tier 1 risk-based capital. Accordingly, we may eventually determine it is advisable or our regulators could require us, based upon new capital or liquidity regulations or otherwise, to raise additional Tier 1 risk-based capital through the issuance of additional preferred stock or common equity. Should such issuances occur, they would likely result in dilution to our shareholders. Currently, we expect to have sufficient access to the capital markets to be able to raise any necessary replacement capital. Nevertheless, should market conditions deteriorate, our ability to raise capital may be diminished significantly, which could, in turn, have a Material Adverse Effect on Us. Approximately $140 billion of trust preferred securities issued by U.S. financial institutions will be affected by the Dodd-Frank Act phase-out of trust preferred securities as Tier 1 eligible. Many other institutions are faced with this same issue. Furthermore, the Dodd-Frank Act and related or other rulemaking may result in new regulatory capital standards for institutions to be recognized as well-capitalized. These factors could have a Material Adverse Effect on Us.

An offering of a significant amount of additional Common Shares or equity convertible into our Common Shares could cause us to issue a significant amount of Common Shares to a private investor or group of private investors and thus have a significant investor with voting rights.

Any issuance or issuances totaling a significant amount of our Common Shares or equity convertible into our Common Shares could cause us to issue a significant amount of Common Shares to a private investor or group of investors and thus have a significant investor with voting rights. Having a significant shareholder may make some future transactions more difficult or perhaps impossible to complete without the support of such shareholder. The interests of the significant shareholder may not coincide with our interests or the interests of other shareholders. There can be no assurance that any significant shareholder will exercise its influence in our best interests as opposed to its best interests as a significant shareholder. Accordingly, a significant shareholder may make it difficult to approve certain transactions even if they are supported by the other shareholders. These factors could have a Material Adverse Effect on Us.

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We are subject to market risks, including in the commercial real estate sector. Should the fundamentals of the commercial real estate market further deteriorate, our financial condition and results of operations could be adversely affected.

The fundamentals within the commercial real estate sector remain weak, under continuing pressure by reduced asset values, high vacancies and reduced rents. Commercial real estate values peaked in the fall of 2007, after gaining approximately 30% since 2005 and 90% since 2001. According to Moody s Real Estate Analytics, LLC Commercial Property Index (December 2010), commercial real estate values were down 42% from their peak. Many of our commercial real estate loans were originated between 2005 and 2007. A portion of our commercial real estate loans are construction loans. These properties are typically not fully leased at the origination of the loan, but the borrower may be reliant upon additional leasing through the life of the loan to provide cash flow to support debt service payments. Weak economic conditions typically slow the execution of new leases; such conditions may also lead to existing lease turnover. As we experienced during 2010, vacancy rates for retail, office and industrial space are expected to remain elevated and could increase in 2011. Increased vacancies could result in rents falling further over the next several quarters. The combination of these factors could result in further weakening in the fundamentals underlying the commercial real estate market. Should these fundamentals continue to deteriorate as a result of further decline in asset values and the instability of rental income, it could have a Material Adverse Effect on Us.

Declining asset prices could adversely affect us.

During the recent recession in December 2007 to June 2009, the volatility and disruption that the capital and credit markets have experienced reached extreme levels. The severe market dislocations in 2008 led to the failure of several substantial financial institutions, causing widespread liquidation of assets and further constraining credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. For example, a further recession would likely reverse recent positive trends in asset prices. These factors could have a Material Adverse Effect on Us.

We are subject to credit risk, in the form of changes in interest rates and/or changes in the economic conditions in the markets where we operate, which changes could adversely affect us.

There are inherent risks associated with our lending and trading activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate. Increases in interest rates and/or further weakening of economic conditions caused by a double-dip recession or otherwise could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

As of December 31, 2010, approximately 69% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans. We closely monitor and manage risk concentrations and utilize various portfolio management practices to limit excessive concentrations when it is feasible to do so; however, our loan portfolio still contains a number of commercial loans with relatively large balances.

We also do business with environmentally sensitive industries and in connection with the development of Brownfield sites that provide appropriate business opportunities. We monitor and evaluate our borrowers for compliance with environmental-related covenants, which include covenants requiring compliance with applicable law. We take steps to mitigate risks; however, should political or other changes make it difficult for certain of our customers to maintain compliance with applicable covenants, our credit quality could be adversely affected. The deterioration of one or more of any of our loans could cause a significant increase in nonperforming loans, which could result in net loss of earnings from these loans, an increase in the provision for loan and lease losses and an increase in loan charge-offs, any of which could have a Material Adverse Effect on Us.

We also are subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment against us of civil money or other penalties, which could have a Material Adverse Effect on Us.

There can be no assurance that the legislation and other initiatives undertaken by the United States government to restore liquidity and stability to the U.S. financial system and reform financial regulation in the U.S. will help stabilize the U.S. financial system.

Since 2008, the federal government has intervened in an unprecedented manner in response to the recent financial crisis that affected the banking system and financial markets. The EESA was enacted and signed into law by President Bush in October 2008 in response to the ongoing financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Under the authority provided by EESA, the U.S. Treasury established the CPP, and the core provisions of the Financial Stability Plan aimed at stabilizing and providing liquidity to the financial markets. There can be no assurance regarding the actual impact that the EESA, the American Recovery and Reinvestment Act of 2009 (Recovery Bill), the Dodd-Frank Act, the Tax Compromise, or other programs and initiatives undertaken by the U.S. government will have on the financial markets. In addition, the Federal Reserve has implemented a variety of monetary policy measures to stabilize the economy. Nevertheless, the extreme levels of volatility and limited credit availability experienced in late 2008 and through the third quarter of 2009 may return or persist. During the liquidity crisis from late 2007 to 2009, regional financial institutions faced difficulties issuing debt in the fixed income debt markets; these conditions could return and pose continued difficulties for the issuance of both medium term note and long-term subordinated note issuances. The failure of the U.S. government programs to sufficiently contribute to financial market stability and put the U.S. economy on a stable path for an economic recovery could result in a worsening of current financial market conditions, which could have a Material Adverse Effect on Us. In the event that any of the various forms of turmoil experienced in the financial markets return or become exacerbated, there may be a Material Adverse Effect on Us from (1) continued or accelerated disruption and volatility in financial markets, (2) continued capital and liquidity concerns regarding financial institutions generally and our transaction counterparties specifically, (3) limitations resulting from further governmental action to stabilize or provide additional regulation of the financial system, or (4) recessionary conditions that return, are deeper, or last longer than currently anticipated.

Issuing a significant amount of common equity to a private investor may result in a change in control of KeyCorp under regulatory standards and contractual terms.

Should we obtain a significant amount of additional capital from any individual private investor, a change of control could occur under applicable regulatory standards and contractual terms. Such change of control may trigger notice, approval and/or other regulatory requirements in many states and jurisdictions in which we operate. We are a party to various contracts and other agreements that may require us to obtain consents from our respective contract counterparties in the event of a change in control. The failure to obtain any required regulatory consents or approvals or contractual consents due to a change in control may have a Material Adverse Effect on Us.

Should we decide to repurchase the U.S. Treasury s Series B Preferred Stock, future issuance(s) of Common Shares may be necessary, which, if necessary, may result in significant dilution to holders of KeyCorp Common Shares.

In conjunction with any repurchase of the Series B Preferred Stock issued to the U.S. Treasury, we may elect or be required by our regulators to increase the amount of our Tier 1 common equity through the sale of additional Common Shares. In addition, in connection with the U.S. Treasury s purchase of the Series B Preferred Stock, pursuant to a Letter Agreement dated November 14, 2008, and the Securities Purchase Agreement Standard Terms, the U.S. Treasury received a Warrant to purchase 35,244,361 of our Common Shares at an initial per share exercise price of $10.64, subject to adjustment, which expires ten years from the issuance date, and we have agreed to provide the U.S. Treasury with registration rights covering the Warrant and the underlying Common Shares. The terms of the Warrant provide for a procedure, upon repurchase of the Series B Preferred Stock, to determine the value of the Warrant, and purchase the Warrant, within approximately 40 days of the repurchase of the Series B Preferred Stock. However, even if we were to redeem the Series B Preferred Stock, there is no assurance that this Warrant will be fully retired and, therefore, that it will not be exercised, prior to its expiration date. The issuance of additional Common Shares as a result of the exercise of the Warrant the U.S. Treasury holds would likely dilute the ownership interest of KeyCorp s existing common shareholders.

The terms of the Warrant provide that, if we issue Common Shares or securities convertible or exercisable into or exchangeable for Common Shares at a price that is less than 90% of the market price of such shares on the last trading day preceding the date of the agreement to sell such shares, the number and the per share price of Common Shares to be purchased pursuant to the Warrant will be adjusted pursuant to its terms. We may also choose to issue securities convertible into or exercisable for our Common Shares and such securities may themselves contain anti-dilution provisions. Such anti-dilution adjustment provisions may have a further dilutive effect on other holders of our Common Shares.

There can be no assurance that we will not in the future determine that it is advisable, or that we will not encounter circumstances where we determine that it is necessary, to issue additional Common Shares, securities convertible into or exchangeable for Common Shares or common-equivalent securities to fund strategic initiatives or other business needs or to build additional capital. Nevertheless, there can be no assurance that our regulators, including the U.S. Treasury and the Federal Reserve, will not conduct additional stress test capital assessments outside of typical examination cycles, such as the SCAP, and/or require us to generate additional capital, including Tier 1 common equity, in the future in the event of further negative economic circumstances, in order for us to redeem our Series B Preferred Stock held by the U.S. Treasury under the CPP or otherwise. The market price of our Common Shares could decline as a result of such exchange offerings, as well as other sales of a large block of our Common Shares or similar securities in the market thereafter, or the perception that such sales could occur. These factors could have a Material Adverse Effect on Us.

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We may not be permitted to repurchase the U.S. Treasury s CPP investment if and when we request approval to do so.

While it is our plan to repurchase the Series B Preferred Stock as soon as practicable, in order to repurchase such securities, in whole or in part, we must establish to our regulators satisfaction that we have met all of the conditions to repurchase and must obtain the approval of the Federal Reserve and the U.S. Treasury. There can be no assurance that we will be able to repurchase the U.S. Treasury s CPP investment in our Series B Preferred Stock subject to conditions that we find acceptable, or at all. In addition to limiting our ability to return capital to our shareholders, the U.S. Treasury s investment could limit our ability to retain key executives and other key employees, and limit our ability to develop business opportunities. These factors could have a Material Adverse Effect on Us.

We are subject to interest rate risk, which could adversely affect our earnings on loans and other interest-earning assets.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the competitive environment within our markets, consumer preferences for specific loan and deposit products and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the amount of interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits as well as the fair value of our financial assets and liabilities. If the interest we pay on deposits and other borrowings increases at a faster rate than the interest we receive on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings. We use simulation analysis to produce an estimate of interest rate exposure based on assumptions and judgments related to balance sheet changes, customer behavior, new products, new business volume, product pricing, competitor behavior, the behavior of market interest rates and anticipated hedging activities. Simulation analysis involves a high degree of subjectivity and requires estimates of future risks and trends. Accordingly, there can be no assurance that actual results will not differ from those derived in simulation analysis due to the timing, magnitude and frequency of interest rate changes, actual hedging strategies employed, changes in balance sheet composition, and the possible effects of unanticipated or unknown events.

Although we believe that we have implemented effective asset and liability management strategies, including simulation analysis and the use of interest rate derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected and/or prolonged change in market interest rates could have a Material Adverse Effect on Us.

We are subject to changes in the financial markets which could adversely affect us.

Traditionally, market factors such as changes in foreign exchange rates, changes in the equity markets and changes in the financial soundness of bond insurers, sureties and other unrelated financial companies have the potential to affect current market values of financial instruments. During 2008, market events demonstrated this to an extreme. Between July 2007 and October 2009, conditions in the fixed income markets, specifically the wider credit spreads over benchmark U.S. Treasury securities for many fixed income securities, caused significant volatility in the market values of loans, securities, and certain other financial instruments that are held in our trading or held-for-sale portfolios. Opportunities to minimize the adverse affects of market changes are not always available. Substantial changes in the financial markets could have a Material Adverse Effect on Us.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services to institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. During 2008, Key incurred $54 million of derivative-related charges as a result of market disruption caused by the failure of Lehman Brothers. Another example of losses related to this type of risk are the losses associated with the Bernie Madoff ponzi scheme (Madoff ponzi scheme). As a result of the Madoff ponzi scheme, our investment subsidiary, Austin, determined that its funds had suffered investment losses up to $186 million. Following Lehman Brothers failure, we took several steps to better measure, monitor, and mitigate our counterparty risks and to reduce these exposures and implemented our Enterprise Risk Management Program to better monitor and evaluate risk presented enterprise-wide. These measures include daily position measurement and reporting, the use of scenario analysis and stress testing, replacement cost estimation, risk mitigation strategies, and market feedback validation.

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due us. It is not possible to anticipate all of these risks and it is not feasible to mitigate these risks completely. Accordingly, there is no assurance that our Enterprise Risk Management program will effectively mitigate these risks. Accordingly, these factors could have a Material Adverse Effect on Us.

We are subject to liquidity risk, which could negatively affect our funding levels.

Market conditions or other events could negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets and liabilities under both normal and adverse conditions, any substantial, unexpected and/or prolonged change in the level or cost of liquidity could have a Material Adverse Effect on Us. Certain credit markets that we participate in and rely upon as sources of funding were significantly disrupted and volatile from the third quarter of 2007 through the third quarter of 2009. Credit markets have improved since then, and we have significantly reduced our reliance on wholesale funding sources. Part of our strategy to reduce liquidity risk involves promoting customer deposit growth, exiting certain noncore lending businesses, diversifying our funding base, maintaining a liquid asset portfolio, and strengthening our capital base to reduce our need for debt as a source of liquidity. Many of these disrupted markets are showing signs of recovery. Nonetheless, if further market disruption or other factors reduce the cost effectiveness and/or the availability of supply in the credit markets for a prolonged period of time, should our funding needs necessitate it, we may need to expand the utilization of unsecured wholesale funding instruments, or use other potential means of accessing funding and managing liquidity such as generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, purchasing deposits from other banks, borrowing under certain secured wholesale facilities, and utilizing relationships developed with fixed income investors in a variety of markets domestic, European and Canadian as well as increased management of loan growth and investment opportunities and other management tools. There can be no assurance that these alternative means of funding will be available; under certain stressed conditions experienced in the liquidity crisis during 2007-2009, some of these alternative means of funding were not available. Should these forms of funding become unavailable, it is unclear what impact, given current economic conditions, unavailability of such funding would have on us. A deep and prolonged disruption in the markets could have the effect of significantly restricting the accessibility of cost effective capital and funding, which could have a Material Adverse Effect on Us.

Various factors may cause our allowance for loan and lease losses to increase.

We maintain an allowance for loan and lease losses, which is a reserve established through a provision for loan and lease losses charged to expense, that represents our estimate of losses within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan and lease losses and risks incurred in the loan portfolio. The level of the allowance reflects our ongoing evaluation of industry concentrations, specific credit risks, loan and lease loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and incurred losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan and lease losses. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the allowance for loan and lease losses. Additional provisions to increase the allowance for loan and lease losses, should they become necessary, would result in a decrease in net income and capital and may have a Material Adverse Effect on Us.

We are subject to operational risk.

We are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk also encompasses compliance (legal) risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business, such as certain loan processing functions. Additionally, some of our outsourcing arrangements are located overseas and therefore are subject to political risks unique to the regions in which they operate. Although we seek to mitigate operational risk through a system of internal controls, resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation or foregone opportunities, any and all of which could have a Material Adverse Effect on Us.

Our profitability depends significantly on economic conditions in the geographic regions in which we operate.

Our success depends primarily on economic conditions in the markets in which we operate. We have concentrations of loans and other business activities in geographic areas where our branches are located the Northwest, the Rocky Mountains, the Great Lakes and the Northeast as well as potential exposure to geographic areas outside of our branch footprint. For example, the nonowner-occupied properties segment of our commercial real estate portfolio has exposures in markets outside of our footprint. Real estate values and cash flows have been negatively affected on a national basis due to weak economic conditions. Certain markets, such as Florida, southern California, Phoenix, Arizona, and Las Vegas, Nevada, have experienced more significant deterioration. The delinquencies, nonperforming loans and charge-offs that we have experienced since 2007 have been more heavily weighted to these specific markets. The regional economic conditions in areas in which we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. A significant decline in general economic conditions caused by inflation, recession, an act of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors, such as severe declines in the value of homes and other real estate, could also impact these regional economies and, in turn, have a Material Adverse Effect on Us.

We operate in a highly competitive industry and market areas.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and super-regional banks as well as smaller community banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional and national financial services firms. In recent years, while the breadth of the institutions that we compete with has increased, competition has intensified as a result of consolidation efforts. During 2009, competition continued to intensify as the challenges of the liquidity crisis and market disruption led to further redistribution of deposits and certain banking assets to strong and large financial institutions. We expect this trend to continue. The competitive landscape was also affected by the conversion of traditional investment banks to bank holding companies during the liquidity crisis due to the access it provides to government-sponsored sources of liquidity. The financial services industry s competitive landscape could become even more intensified as a result of legislative, regulatory, structural and technological changes and continued consolidation. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks.

Our ability to compete successfully depends on a number of factors, including, among other things:

- our ability to develop and execute strategic plans and initiatives;
- our ability to develop, maintain and build upon long-term customer relationships based on quality service, high ethical standards and safe, sound assets;
- our ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- our ability to attract and retain talented executives and relationship managers; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a Material Adverse Effect on Us.

We are subject to extensive government regulation and supervision.

We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. KeyCorp, as well as other financial institutions more generally, have recently been subjected to increased scrutiny from regulatory authorities stemming from broader systemic regulatory concerns, including with respect to stress testing, capital levels, asset quality, provisioning and other prudential matters, arising as a result of the recent financial crisis and efforts to ensure that financial institutions take steps to improve their risk management and prevent future crises.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The passage of the Dodd-Frank Act has made it clear that a variety of significant changes to the banking and financial institutions regulatory regime will be implemented over the next few years. It is not possible to predict the scope of such changes or their potential impact on our financial position or results of operations.

These regulations or others designed to implement parts of comprehensive financial regulatory reform could limit our ability to conduct certain of our businesses, such as funds that are managed by our investment advisor subsidiary, Victory Capital Management Inc., or funds sponsored and advised by our principal investing line of business, which could require us to divest or spin-off certain of our business units and private equity investments. Furthermore, as part of the SCAP, Key was identified as a financial institution that was one of nineteen firms that collectively hold two-thirds of the banking assets and more than one-half of the loans in the U.S. banking system. While it is difficult to predict the extent or nature of regulatory reform, should regulatory reform limit the size of the SCAP banks, our ability to pursue opportunities to achieve growth through the acquisition of other banks or deposits could be affected, which, in turn could have a Material Adverse Effect on Us.

Changes to statutes, regulations or regulatory policies; changes in the interpretation or implementation of statutes, regulations or policies; and/or continuing to become subject to heightened regulatory practices, requirements or expectations, could affect us in substantial and unpredictable ways, and could have a Material Adverse Effect on Us. Such changes could subject us to additional costs, limit the types of financial services and products that we may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. Failure to appropriately comply with laws, regulations or policies (including internal policies and procedures designed to prevent such violations) could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a Material Adverse Effect on Us.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a Material Adverse Effect on Us.

We rely on dividends from our subsidiaries for most of our funds.

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash raised from debt and equity issuances, we receive substantially all of our cash flow from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our equity securities and interest and principal on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (our largest subsidiary) and certain nonbank subsidiaries may pay to us. During 2008 and 2009, KeyBank did not pay any dividends to us; nonbank subsidiaries paid us $25 million in dividends during 2010. During 2010, KeyBank could not pay dividends to KeyCorp because KeyBank s net losses of $1.151 billion for 2009 and $1.161 billion for 2008 exceeded KeyBank s net income during 2010. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation Capital Actions, Dividend Restrictions and the Supervisory Capital Assessment Program of this report.

Also, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors. In the event KeyBank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our equity securities. The inability to receive dividends from KeyBank could have a Material Adverse Effect on Us.

Our earnings and/or financial condition may be affected by changes in accounting principles and in tax laws, or the interpretation of them.

Changes in U.S. generally accepted accounting principles could have a Material Adverse Effect on Us. Although these changes may not have an economic impact on our business, they could affect our ability to attain targeted levels for certain performance measures.

Like all businesses, we are subject to tax laws, rules and regulations. Changes to tax laws, rules and regulations, including changes in the interpretation or implementation of tax laws, rules and regulations by the Internal Revenue Service or other governmental bodies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, among other things. Failure to appropriately comply with tax laws, rules and regulations could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a Material Adverse Effect on Us.

Additionally, we conduct quarterly assessments of our deferred tax assets. The carrying value of these assets is dependent upon earnings forecasts and prior period earnings, among other things. A significant change in our assumptions could affect the carrying value of our deferred tax assets on our balance sheet, which, in turn, could have a Material Adverse Effect on Us.

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Potential acquisitions may disrupt our business and dilute shareholder value.

Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of our management s time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value (i.e. the assets and liabilities) of the target company;
- difficulty in estimating the fair value of acquired assets, liabilities and derivatives of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per Common Share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a Material Adverse Effect on Us.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to retain or hire the people we want and/or need. In order to attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, our performance, including our competitive position, could suffer, and, in turn, have a Material Adverse Effect on Us. Although we have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a Material Adverse Effect on Us because of the loss of the employee s skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel for our talented executives and/or relationship managers.

Pursuant to the standardized terms of the CPP, among other things, we agreed to institute certain restrictions on the compensation of certain senior executive management positions that could have an adverse effect on our ability to hire or retain the most qualified senior executives. Other restrictions were imposed under the Recovery Act, the Dodd-Frank Act and other legislation or regulations. Our ability to attract and/or retain talented executives and/or relationship managers may be affected by these developments or any new executive compensation limits, and such restrictions could have a Material Adverse Effect on Us.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a Material Adverse Effect on Us.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Our largest competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a Material Adverse Effect on Us.

We are subject to claims and litigation.

From time to time, customers and/or vendors may make claims and take legal actions against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment of the claims. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor they may result in significant financial liability and/or adversely affect how the market perceives us and our products and services as well as impact customer demand for those products and services. We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry. There have also been a number of highly publicized cases involving fraud or misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Any financial liability for which we have not adequately maintained reserves, and/or any reputation damage from such claims and legal actions, could have a Material Adverse Effect on Us.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established disaster recovery plans and procedures, and monitor for significant environmental effects on our properties or our investments, the occurrence of any such event could have a Material Adverse Effect on Us.

Risks Associated With Our Common Shares

Our issuance of securities to the U.S. Treasury may limit our ability to return capital to our shareholders and is dilutive to our Common Shares. If we are unable to redeem such preferred shares, the dividend rate will increase substantially after five years.

In connection with our sale of $2.5 billion of the Series B Preferred Stock to the U.S. Treasury in conjunction with its CPP, we also issued a Warrant to purchase 35,244,361 of our Common Shares at an exercise price of $10.64. The number of shares was determined based upon the requirements of the CPP, and was calculated based on the average market price of our Common Shares for the 20 trading days preceding approval of our issuance (which was also the basis for the exercise price of $10.64). The terms of the transaction with the U.S. Treasury include limitations on our ability to pay dividends and repurchase our Common Shares. For three years after the issuance or until the U.S. Treasury no longer holds any Series B Preferred Stock, we will not be able to increase our dividends above the level of our quarterly dividend declared during the third quarter 2008 ($0.1875 per common share on a quarterly basis) nor repurchase any of our Common Shares or preferred stock without, among other things, U.S. Treasury approval or the availability of certain limited exceptions (e.g., purchases in connection with our benefit plans). Furthermore, as long as the Series B Preferred Stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our Common Shares, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. These restrictions, combined with the dilutive impact of the Warrant, may have an adverse effect on the market price of our Common Shares, and, as a result, could have a Material Adverse Effect on Us.

Unless we are able to redeem the Series B Preferred Stock during the first five years, the dividend payments on this capital will increase substantially at that point, from 5% ($125 million annually) to 9% ($225 million annually). Depending on market conditions at the time, this increase in dividends could significantly impact our liquidity and, as a result, have a Material Adverse Effect on Us.

You may not receive dividends on the Common Shares.

Holders of our Common Shares are only entitled to receive such dividends as the Board of Directors may declare out of funds legally available for such payments. Furthermore, our common shareholders are subject to the prior dividend rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding. As of February 17, 2011, there were 2,904,839 shares of KeyCorp s Series A Preferred Stock with a liquidation preference of $100 per share issued and outstanding and 25,000 shares of the Series B Preferred Stock with a liquidation preference of $100,000 per share issued and outstanding.

In July 2009, we reduced the quarterly dividend on our Common Shares to $0.01 per share. As long as our Series A Preferred Stock and the Series B Preferred Stock are outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our Common Shares, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. In addition, prior to November 14, 2011, unless we have redeemed all of the Series B Preferred Stock or the U.S. Treasury has transferred all of the Series B Preferred Stock to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase our Common Shares dividend above $.1875, except in limited circumstances should we redeem the U.S. Treasury s investment, our ability to increase our dividend. These factors could adversely affect the market price of our Common Shares. Also, KeyCorp is a bank holding company and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

In addition, terms of KeyBank s outstanding junior subordinated debt securities prohibit us from declaring or paying any dividends or distributions on KeyCorp s capital stock, including its Common Shares, or purchasing, acquiring, or making a liquidation payment on such stock, if an event of default has occurred and is continuing under the applicable indenture, if we are in default with respect to a guarantee payment under the guarantee of the related capital securities or if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing. These factors could have a Material Adverse Effect on Us.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our Common Shares.

We are not restricted from issuing additional Common Shares, including securities that are convertible into or exchangeable for, or that represent the right to receive, Common Shares. As described above, in connection with our sale of $2.5 billion of Series B Preferred Stock to the U.S. Treasury, we issued to the Department of the Treasury a Warrant to purchase 35,244,361 of our Common Shares at an exercise price of $10.64, subject to adjustment. Although we have the right to repurchase the Warrant at a negotiated price, we may not desire or be able to do so; and if we do not repurchase the Warrant, the U.S. Treasury could either exercise the Warrant or sell it to third parties. The issuance of additional Common Shares as a result of exercise of this Warrant or the issuance of convertible securities would dilute the ownership interest of existing holders of our Common Shares. In addition, we have in the past and may in the future issue options, convertible preferred stock, and/or other securities that may have a dilutive effect on our Common Shares. The market price of our Common Shares could decline as a result of any such offering, other capital raising strategies or other sales of a large block of shares of our Common Shares or similar securities in the market, or the perception that such sales could occur.

Our Common Shares are equity and are subordinate to our existing and future indebtedness and preferred stock and effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.

Our Common Shares are equity interests and do not constitute indebtedness. As such, our Common Shares will rank junior to all of our current and future indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including in the event of our liquidation. Additionally, holders of our Common Shares are subject to the prior dividend and liquidation rights of holders of our outstanding preferred stock. Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of the holders of our Common Shares. In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary s liquidation or otherwise, and thus the ability of a holder of our Common Shares to benefit indirectly from such distribution, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, our Common Shares will effectively be subordinated to all existing and future liabilities and obligations of our subsidiaries. As of December 31, 2010, we had $13.8 billion of borrowed funds and $60.6 billion of deposits; and the aggregate liquidation preference of our outstanding preferred stock was $2.7 billion.

Our share price can be volatile.

Share price volatility may make it more difficult for you to resell your Common Shares when you want and at prices you find attractive. Our share price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendation by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to our business;
- changes in the credit, mortgage and real estate markets, including the market for mortgage-related securities;
- news reports relating to trends, concerns and other issues in the financial services industry;

- perceptions of us and/or our competitors in the marketplace;
- new technology used, or products or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments entered into by us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- future sales of our equity or equity-related securities;
- our past and future dividend practices;
- changes in governmental regulations affecting our industry generally or our business and operations;
- changes in global financial markets, economies and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility;
- geopolitical conditions such as acts or threats of terrorism or military conflicts; and
- the occurrence or nonoccurrence, as appropriate, of any circumstance described in these Risk Factors.

General market fluctuations, market disruption, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our share price to decrease regardless of operating results. Any of these factors could have a Material Adverse Effect on Us.

An investment in our Common Shares is not an insured deposit.

Our Common Shares are not a bank deposit and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our Common Shares is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common shares in any company. As a result, if you acquire our Common Shares, you may lose some or all of your investment.

Our articles of incorporation and regulations, as well as certain banking laws, may have an anti-takeover effect.

Provisions of our articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our Common Shares.

Risks Associated With Our Industry

Maintaining or increasing our market share may depend upon our ability to adapt our products and services to evolving industry standards and consumer preferences, while maintaining competitive prices for our products and services.

The continuous, widespread adoption of new technologies, including internet services, requires us to evaluate our product and service offerings to ensure they remain competitive. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and consumer preferences. There is increasing pressure from our competitors, both bank and non-bank, to keep pace with evolving preferences of consumers and businesses. Payment methods and financial service providers have evolved as the advancement of technology has made possible the delivery of financial products and services through different mediums and providers, such as cell phones and pay-pal accounts; thereby, increasing competitive pressure in the delivery of financial products and services. The adoption of new technologies could require us to make substantial expenditures to modify our existing products and services. Furthermore, we might not be successful in developing or introducing new products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, or sufficiently developing or maintaining a loyal customer base. The introduction of new products and services has the potential to introduce risk which, in turn, can present challenges to us in operating within our risk tolerances while also achieving growth in our market share. In addition, there is increasing pressure from our competitors to deliver products and services at lower prices. These factors could reduce our revenues from our net interest margin and fee-based products and services and have a Material Adverse Effect on Us.

Certain industries, including the financial services industry, are more significantly affected by certain economic factors such as unemployment and real estate asset values. Should the improvement of these economic factors lag the improvement of the overall economy, or not occur, we could be adversely affected.

Should the stabilization of the U.S. economy lead to a general economic recovery, the improvement of certain economic factors, such as unemployment and real estate asset values and rents, may nevertheless continue to lag behind the overall economy, or not occur at all. These economic factors typically affect certain industries, such as real estate and financial services, more significantly. For example, improvements in commercial real estate fundamentals typically lag broad economic recovery by twelve to eighteen months. Our clients include entities active in these industries. Furthermore, financial services companies with a substantial lending business, like ours, are dependent upon the ability of their borrowers to make debt service payments on

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loans. Should unemployment or real estate asset values fail to recover for an extended period of time, it could have a Material Adverse Effect on Us.

Difficult market conditions have adversely affected the financial services industry, business and results of operations.

The dramatic deterioration experienced in the housing market since 2007 led to weakness across geographies, industries, and ultimately the broad economy. During this period, the housing market experienced falling home prices, increasing foreclosures; unemployment and under-employment rose significantly; and weakened commercial real estate fundamentals negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, and commercial and investment banks. The resulting write-downs to assets of financial institutions caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to seek government assistance or bankruptcy protection. It is not possible to predict if these economic conditions will re-emerge, which of our markets, products or other businesses may ultimately be affected, and whether our actions and government remediation efforts may effectively mitigate these factors. If economic conditions deteriorate, it could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a Material Adverse Effect on Us.

If economic conditions deteriorate, we may face the following risks, including, but not limited to:

Increased regulation of our industry, including heightened legal standards and regulatory requirements or expectations.

Impairment of our ability to assess the creditworthiness of our customers if the models and approaches we use to select, manage, and underwrite customers become less predictive of future behaviors due to fundamental changes in economic conditions.

The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans. In a highly uncertain economic environment, these processes may no longer be capable of accurate estimation and, in turn, may impact the reliability of our evaluation of our credit risk and exposure.

Our ability to borrow from other financial institutions or to engage in securitization funding transactions on favorable terms or at all could be adversely affected by future disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

We may be required to pay significantly higher FDIC premiums in the future because market developments significantly deplete the insurance fund of the FDIC and reduce the ratio of reserves to insured deposits.

Financial institutions may be required, regardless of risk, to pay taxes or other fees to the U.S. Treasury. Such taxes or other fees could be designed to reimburse the U.S. Treasury for the many government programs and initiatives it may undertake as part of its economic stimulus efforts.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a Material Adverse Effect on Us.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete through alternative methods financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a Material Adverse Effect on Us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments.

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ITEM 2. PROPERTIES

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2010, Key leased approximately 686,002 square feet of the complex, encompassing the first twenty-three floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 579 and leased 454 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

ITEM 3. LEGAL PROCEEDINGS

The information in the Legal Proceedings section of Note 16 (Commitments, Contingent Liabilities and Guarantees) of the Notes to our Consolidated Financial Statements is incorporated herein by reference.

ITEM 4. [RESERVED]

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The dividend restrictions discussion in the Supervision and Regulation section in Item 1 of this report, and the following disclosures included in Item 7 the Management s Discussion and Analysis of Financial Condition and Results of Operation and in the Notes to the Consolidated Financial Statements contained in Item 8 to this report, are incorporated herein by reference:

	Page(s)
Discussion of Common Shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	66-67
Presentation of annual market price and cash dividends per Common Share	39
Discussion of dividend restrictions in the Liquidity risk management Liquidity for KeyCorp section, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 20 (Shareholders Equity)	78, 109, 162
KeyCorp common share price performance (2005-2010) graph	67

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp through cash purchase, privately negotiated transactions or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions and other factors. The amounts involved may be material.

At this time, we do not have an active repurchase program for our Common Shares other than for repurchases in connection with administration of our benefit programs. However, should we redeem the U.S. Treasury s investment in our Series B Preferred Securities, we may choose, in lieu of repurchasing the Warrant from the U.S. Treasury to repurchase, retire or exchange an amount of our Common Shares to offset the estimated dilution, subject to the approval of the Federal Reserve. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, and other factors. The amounts involved may be material.

ITEM 6. SELECTED FINANCIAL DATA

The information included under the caption selected financial data in Item 7. the MD&A beginning on page 39 is incorporated herein by reference.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (the MD&A)

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Throughout the Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations. These terms are defined in Note 1 (Summary of Significant Accounting Policies) which begins on page 99.

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Introduction

This section generally reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater detail. When you read this discussion, you should also consult the consolidated financial statements and related notes in this report. The page locations of specific sections that we refer to are presented in the preceding table of contents.

Terminology

Throughout this discussion, references to Key, we, our, us and similar terms refer to the consolidated entity consist of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers to KeyCorp s subsidiary bank, KeyBank National Association.

We want to explain some industry-specific terms at the outset so you can better understand the discussion that follows.

In September 2009, we decided to discontinue the education lending business. In April 2009, we decided to wind down the operations of Austin Capital Management, Ltd., a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of these decisions, we have accounted for these businesses as ***discontinued operations***. We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business and Austin.

Our ***exit loan portfolios*** are separate from our ***discontinued operations.*** These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in ***Other Segments.***

We engage in ***capital markets activities*** primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients financing needs and for proprietary trading purposes), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or bank holding company s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described in the section entitled Economic Overview, in 2010, the regulators initiated an additional level of review of capital adequacy for the country s nineteen largest banking institutions, including KeyCorp. This regulatory assessment continued during 2010 and 2011. As part of this capital adequacy review, banking regulators evaluated a component of Tier 1 capital, known as ***Tier 1 common equity***. For a detailed explanation of total capital, Tier 1 capital and Tier 1 common equity, and how they are calculated see the section entitled Capital.

During the first quarter of 2010, we re-aligned our reporting structure for our segments. Previously, the Consumer Finance business group consisted mainly of portfolios that were identified as exit or run-off portfolios and were included in our Key Corporate Bank segment. We are now reflecting these exit portfolios in Other Segments. The automobile dealer floor plan business, previously included in Consumer Finance, has been re-aligned with the Commercial Banking line of business within the Key Community Bank segment. In addition, other previously identified exit portfolios included in the Key Corporate Bank segment, including our homebuilder loans from the Real Estate Capital line of business and commercial leases from the Equipment Finance line of business, have been moved to Other Segments. For more detailed financial information pertaining to each segment and its respective lines of business, see Note 21 (Line of Business Results).

Long-term financial goals

Our long-term financial goals are as follows:

Target a loan to core deposit ratio range of 90% to 100%.

Return to a moderate risk profile by targeting a net charge-off ratio range of .40% to .50%.

Grow high quality and diverse revenue streams by targeting a net interest margin in excess of 3.50% and noninterest income to total revenue of greater than 40%.

Create positive operating leverage and complete Keyvolution run-rate savings goal of $300 million to $375 million by the end of 2012.

Achieve a return on average assets in the range of 1.00% to 1.25%.

Figure 1 shows the evaluation of our long-term financial goals for the fourth quarter of 2010.

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Figure 1. Quarterly evaluation of our long-term financial goals

Goal	Key Metrics[(a)]	4Q10	Targets	Action Plans
Core funded	Loan to deposit ratio [(b)(c)]	90 %	90-100 %	§ Improve risk profile of loan portfolio § Improve mix and grow deposit base
Returning to a moderate risk profile	NCOs to average loans	2.00 %	.40% - .50 %	§ Focus on relationship clients § Exit noncore portfolios § Limit concentrations § Focus on risk-adjusted returns
Growing high quality, diverse revenue streams	Net Interest Margin	3.31 %	>3.50 %	§ Improve funding mix § Focus on risk-adjusted returns
	Noninterest income/ total revenue	45 %	>40 %	§ Leverage Key s total client solutions and cross-selling capabilities
Creating positive operating leverage	Keyvolution cost savings	$228 million implemented	$ 300-$375 million	§ Improve efficiency and effectiveness § Leverage technology § Change cost base to more variable from fixed
Executing our strategies	Return on average assets	1.53 %	1.00-1.25 %	§ Execute our client insight-driven relationship model § Improved funding mix with lower cost core deposits § Keyvolution savings

(a) Calculated from continuing operations, unless otherwise noted.

(b) Loans and loans held for sale (excluding securitized loans) to deposits (excluding foreign branches).

(c) Calculated from consolidated operations.

Corporate strategy

We remain committed to enhancing shareholder value by having a strong balance sheet, consistent earnings growth, and a focus on risk-adjusted returns. We are achieving these goals by implementing our client insight-driven relationship strategy, which is built on enduring relationships, client-focused solutions with extraordinary client service, and a robust risk management culture. Our 2010/2011 strategic priorities for enhancing shareholder value and for creating sustainable long-term value were as follows:

Drive sustainable, profitable growth through disciplined execution. We strive for continuous improvement in our business. We continue to focus on increasing revenues, controlling costs, and returning to a moderate risk profile in our loan portfolios. Further, we will continue to leverage technology and other workforce initiatives to achieve these objectives.

Expand, retain and acquire client relationships. We work to deepen relationships with existing clients and to build targeted relationships with new clients, particularly those that have the potential to purchase multiple products and services or to generate repeat business. We aim to better understand our clients and to devise better ways to meet their needs by regularly seeking client feedback and using those insights to improve our products and services. We will strengthen the alignment between our Key Corporate Bank and Key Community Bank to ensure we deliver the whole array of products and services to our clients. Our relationship strategy and commitment to extraordinary service serve as the foundation for everything we do.

Operate within a robust risk-management culture. We will continue to align our risk tolerances with our corporate strategies and goals, and increase risk awareness throughout the company. Our employees must have a clear understanding of our risk tolerance with regard to factors such as asset quality, operational risk and liquidity levels to ensure that we operate within our desired risk appetite.

Sustain strong reserves, capital and liquidity. We intend to stay focused on sustaining strong reserves and capital, which we believe is important not only in today s environment, but also to support future growth opportunities. We also remain committed to maintaining strong liquidity and funding positions.

Attract and retain a capable, diverse and engaged workforce. We are committed to investing in our workforce to optimize the talent in our organization. We will continue to stress the importance of training, retaining, developing and challenging our employees. We believe this is essential to succeeding on all of our priorities.

Strategic developments

We initiated the following actions during 2010 and 2009 to support our corporate strategy:

During the fourth quarter of 2010, we announced that Henry L. Meyer will retire on May 1, 2011, and that Beth E. Mooney was elected President and Chief Operating Officer of KeyCorp and a member of KeyCorp s Board of Directors. Mooney will assume the additional role of Chairman and Chief Executive Officer on May 1, 2011, and become the first woman CEO of a top 20 U.S. bank. Mooney, who has over 30 years of experience in retail banking, commercial lending, and real estate financing, was previously Vice Chair of KeyCorp and head of Key s Community Bank business.

Three consecutive profitable quarters in 2010 and profit for the entire year. This positive trend was due to higher pre-provision net revenue and a lower provision for loan and lease losses. The growth in pre-provision net revenue was the result of a higher net interest margin and net interest income, well-controlled expenses and improvements in several fee-based businesses.

We scored significantly higher than our four largest banking competitors in a third quarter of 2010 customer satisfaction survey conducted by the American Customer Satisfaction Index. Our scores were significantly better than bank industry scores across the multiple dimensions, most notably in Customer Loyalty.

Our asset quality metrics significantly improved across the majority of our loan portfolios as we proactively addressed credit quality issues. Nonperforming assets and nonperforming loans decreased. Additionally, net loan charge-offs declined compared to the prior year.

Our balance sheet continues to reflect strong capital, liquidity and reserve levels. In August 2010, we issued $750 million of 5-year senior unsecured debt at the holding company.

During 2010 and 2009, we opened 77 new branches and renovated approximately 145 others. We expect to open 35-40 new branches in 2011 as part of our long-term plan to modernize and strengthen our presence in select markets.

During 2009, we settled all outstanding federal income tax issues with the IRS for the tax years 1997-2006, including all outstanding leveraged lease tax issues for all open tax years.

During the third quarter of 2009, we decided to exit the government-guaranteed education lending business, following earlier actions taken in the third quarter of 2008 to cease private student lending. As a result of this decision, we have accounted for the education lending business as a discontinued operation. Additionally, we ceased conducting business in both the commercial vehicle and office equipment leasing markets.

During the second quarter of 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of this decision, we have accounted for this business as a discontinued operation.

In late 2008, we began a corporate-wide initiative designed to build a consistently superior experience for our clients, simplify processes, improve speed to market, and enhance our ability to seize growth and profit opportunities. As of December 31, 2010, we have achieved $228 million of the targeted run-rate savings toward our goal of achieving $300 million to $375 million by the end of 2012. Over the past three years, we have been exiting certain noncore businesses, such as retail marine and education lending, and have been modernizing our 14-state branch network, coupled with enhancing our online banking to provide clients with a breadth of options that meet their specific banking needs. As a result of these and other efforts, over the last two years, our workforce has been reduced by 2,485 average full-time equivalent employees.

Economic overview

The strength of the economic recovery in the United States varied throughout 2010; however, the year ended with a positive tone. During the first quarter, Gross Domestic Product (GDP) increased 3.7%, the second biggest quarterly increase since the recession began in December of 2007. GDP growth continued into the second and third quarters, although at a lower level. The average quarterly GDP growth of 2.7% for the first three quarters of 2010 represents a significant improvement from the 2009 average quarterly change in GDP of .25% and also outpaces the ten-year average of 1.7%. Growth in 2010 was supported by businesses rebuilding inventory levels and capital spending on equipment and software. Growth was also sustained by increasing contributions from consumer spending, which grew at an average monthly rate of .3% for 2010, matching the rate of growth in 2009.

Despite the strength in consumer spending, employers remained reluctant to add a significant number of employees to payrolls. U.S. payrolls increased by .9 million during 2010, compared to a decline of 5.1 million in 2009. 2010 was the first year of job growth since the recession began. Over 8 million Americans lost their jobs during the recession. The unemployment rate declined to 9.4% in December of 2010, compared to 9.9% in December of 2009.

Housing continued to be a drag on consumer wealth in 2010 as home buying activity declined after the expiration of the homebuyer tax credit, offered as part of the The Worker, Homeownership and Business Assistance Act of 2009. Historically low mortgage rates were not enough to attract buyers. Sales of existing homes declined by 3% in 2010 compared to a 15% rise in 2009. The median price of existing homes in December 2010 declined 1% from December 2009, compared to a 3% annual decline a year earlier. A reduced level of foreclosures helped to stabilize existing home prices. The number of foreclosures in December 2010 declined 26% from the December 2009 level. New home sales declined by 8% in 2010, compared to a 6% decline in 2009. The median price of new homes increased by 8%. New home construction in December 2010 declined 8% from the same month in 2009.

Due to an improved economic outlook and functioning of the financial markets, the Federal Reserve ceased its purchases of agency debt and agency mortgage-backed securities and closed most of its emergency liquidity facilities during the first quarter of 2010. As the economic outlook moderated during the second and third quarters, the Federal Reserve decided at the November Federal Open Market Committee meeting to reinstate quantitative easing through additional agency security purchases. The Federal Reserve also held the federal funds target rate near zero throughout all of 2010. Benchmark term interest rates declined during 2010 due to these Federal Reserve actions and expectations of a slow economic recovery. During 2010, investors sought the safety of Treasury securities at times of heightened fears related to the European sovereign debt crisis. As a result of these factors, the benchmark two-year Treasury yield decreased to .60% at December 31, 2010, from 1.14% at December 31, 2009, and the ten-year Treasury yield decreased to 3.30% at December 31, 2010 from 3.84% at December 31, 2009.

Regulatory Reform Developments

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. This Act is intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the United States, reduce the risks of bank failures and better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of systemically important financial companies (including nonbank financial companies). The Dodd-Frank Act implements numerous and far-reaching changes across the financial landscape affecting financial companies, including banks and bank holding companies such as Key. For a review of the various changes that the Dodd-Frank Act implements, see the Supervision and Regulation Regulatory Reform in Item 1. Business of this report. Many of the rulemakings required by the various regulatory agencies are still in the process of being developed and/or implemented.

Interchange Fees

On December 16, 2010, the Federal Reserve released proposed rules governing interchange fees that merchants pay to banks when consumers make purchases with their debit cards (the proposal). The proposal would implement provisions of the Dodd-Frank Act. The proposal was open for public comment through February 22, 2011, with the Federal Reserve expecting implementation of any proposed interchange fee standards by July 21, 2011, should the proposal be adopted.

As previously announced, we currently estimate that approximately $100 million in debit interchange revenue could be impacted by the proposal. Until the regulations are finalized by the Federal Reserve, it is premature to assess the impact on this combined revenue stream of the proposal. It is possible that the effect could be significant to the revenue we derive from these activities.

Regulation E pursuant to the Electronic Fund Transfer Act of 1978

During the third quarter of 2010, the Federal Reserve s final rules regarding Regulation E became effective. Regulation E is designed to protect consumers by prohibiting unfair practices and improving disclosures to consumers. Regulation E became effective July 1, 2010, for new clients and on August 15, 2010, for existing clients. Regulation E, among other items, prohibits financial institutions from charging overdraft fees to a client without receiving consent from the client to opt-in to the financial institutions overdraft services for ATM and everyday debit card transactions.

Based on the number of clients whom have opted-in, we estimate the impact to us was an annualized decline of approximately $40 million in our deposit service charge income during the fourth quarter of 2010. This decline is consistent with our previously reported expectations. However, this amount is subject to change as additional clients make their overdraft decisions.

FDIC Rulemaking Developments

Several significant developments have impacted Deposit Insurance Assessments. Substantially all of KeyBank s domestic deposits are insured up to applicable limits by the FDIC. The FDIC assesses an insured depository institution an amount for deposit insurance premiums equal to its deposit insurance assessment base times a risk-based assessment rate. Under the risk-based assessment system in effect during 2010, annualized deposit insurance premium assessments ranged from $.07 to $.775 for each $100 of assessable domestic deposits based on the institution s risk category. This system will remain in effect for the first quarter of 2011. In 2009, the FDIC amended its assessment regulations to require insured depository institutions to prepay, on December 30, 2009, their estimated quarterly assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012.

The amount of KeyBank s assessment prepayment was $539 million. For 2010, our FDIC insurance assessment was $124 million. As of December 31, 2010, we had $388 million of prepaid FDIC insurance assessment recorded on our balance sheet.

The Dodd-Frank Act requires the FDIC to change the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, and requires the DIF reserve ratio to increase to 1.35% by September 30, 2020, rather than 1.15% by December 31, 2016, as previously required. To implement these and other changes to the current deposit insurance assessment regime, the FDIC issued several proposed rules in 2010. On February 7, 2011, the FDIC adopted their final rule on assessments. Under the final rule, which is effective on April 1, 2011, KeyBank s annualized deposit insurance premium assessments would range from $.025 to $.45 for each $100 of its new assessment base, depending on its new scorecard performance incorporating KeyBank s regulatory rating, ability to withstand asset and funding related stress, and relative magnitude of potential losses to the FDIC in the event of KeyBank s failure. We estimate that our 2011 expense for deposit insurance assessments will be $60 to $90 million.

Demographics

We have two major business segments: Key Community Bank and Key Corporate Bank. The effect on our business of continued volatility and weakness in the housing market varies with the state of the economy in the regions in which these business segments operate.

Key Community Bank serves consumers and small to mid-sized businesses by offering a variety of deposit, investment, lending and wealth management products and services. These products and services are provided through a 14-state branch network organized into three internally defined geographic regions: Rocky Mountains and Northwest, Great Lakes, and Northeast.

Commercial and industrial loan growth in our middle-market portfolio is improving. We are particularly encouraged as we experienced commercial loan growth during the fourth quarter of 2010 in the Northeast region. Trends are improving in the Great Lakes, Rocky Mountains and Northwest regions as the economic recovery migrates across the country. Merger and acquisition activity is also increasing and we expect businesses to begin to draw on their available credit facilities and cash to make investments in their production capabilities that have been postponed over the past several years.

Figure 2 shows the geographic diversity of our Key Community Bank segment s average core deposits, commercial loans and home equity loans.

Figure 2. Key Community Bank Geographic Diversity

Year Ended December 31, 2010	**Geographic Region**				
dollars in millions	**Rocky Mountains and Northwest**	**Great Lakes**	**Northeast**	**Nonregion[a]**	**Total**
Average deposits	$ 15,865	$ 16,058	$ 14,815	$ 2,932	$ 49,670
Percent of total	31.9 %	32.3 %	29.8 %	6.0 %	100.0 %
Average commercial loans	$ 5,524	$ 3,428	$ 2,656	$ 2,788	$ 14,396
Percent of total	38.4 %	23.8 %	18.4 %	19.4 %	100.0 %

Average home equity loans	$ 4,342	$ 2,763	$ 2,545	$ 123	$ 9,773
Percent of total	44.4 %	28.3 %	26.0 %	1.3 %	100.0 %

(a) Represents average deposits, commercial loan and home equity loan products centrally managed outside of our three Key Community Bank regions.

Key Corporate Bank includes three lines of business that operate nationally, within and beyond our 14-state branch network, as well as internationally.

The Real Estate Capital and Corporate Banking Services business consists of two business units. Real Estate Capital provides lending, debt placements, servicing, and equity and investment banking services to developers, brokers and owner investors dealing primarily with nonowner-occupied properties. Corporate Banking provides a full array of commercial banking products and cash management services.

Equipment Finance meets the equipment leasing needs of companies worldwide and provides equipment manufacturers, distributors and resellers with funding options for their clients.

The Institutional and Capital Markets business consists of two business units. KeyBanc Capital Markets provides commercial lending, treasury management, investment banking, derivatives, foreign exchange, equity and debt underwriting and trading, and syndicated finance products and services to large corporations and middle-market companies. Victory Capital Management manages or offers advice regarding investment portfolios for a national client base.

Additional information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments are described further in this report in Note 21 (Line of Business).

Since the beginning of the financial crisis, results for Key Corporate Bank have been adversely affected by increasing credit costs and volatility in the capital markets. In 2010, credit losses in the Key Corporate Bank declined and the overall recovery in the equity markets led to growth in the market values of assets under management, and stability in the market value of other assets (primarily commercial real estate loans and securities held for sale or trading).

We saw market liquidity strengthen in the latter half of 2010. We used this as an opportunity to continue to sell certain of our nonperforming assets. We were encouraged by the fact that we were able to sell these assets at prices that were close to their carrying value as recorded on our books.

Figure 22, which appears later in this report in the Loans and loans held for sale section, shows the diversity of our commercial real estate lending business based on industry type and location. As previously reported, we have ceased all new lending to homebuilders and, since December 31, 2007, we have reduced outstanding balances in the residential properties portion of the commercial real estate construction loan portfolio by $3 billion, or 85%, to $525 million. Additional information about loan sales is included in the Credit risk management section.

Critical accounting policies and estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical; not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 should be reviewed for a greater understanding of how we record and report our financial performance.

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of relatively greater business importance, or require us to exercise judgment and to make assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may prove to be inaccurate, or we may find it necessary to change them.

We rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions. A brief discussion of each of these areas follows.

Allowance for loan and lease losses

The loan portfolio is the largest category of assets on our balance sheet. We consider a variety of data to determine probable losses incurred in the loan portfolio and to establish an allowance that is sufficient to absorb those losses. For example, we apply historical loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, lending policies, underwriting standards, and the level of credit risk associated with specific industries and markets. Other considerations include expected cash flows and estimated collateral values.

For all TDR s, regardless of size, as well as all other impaired loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss and assign a specific allowance to the loan if deemed appropriate. For example, a specific allowance may be assigned even when sources of repayment appear sufficient if we remain uncertain that the loan will be repaid in full.

We continually assess the risk profile of the loan portfolio and adjust the allowance for loan and lease losses when appropriate. The economic and business climate in any given industry or market is difficult to gauge and can change rapidly, and the effects of those changes can vary by borrower. However, since our total loan portfolio is well diversified in many respects, and the risk profile of certain segments of the loan portfolio may be improving while the risk profile of others is deteriorating, we may decide to change the level of the allowance for one segment of the portfolio without changing it for any other segment.

At December 31, 2010, the Key Community Bank reporting unit had $917 million in goodwill, while the Key Corporate Bank reporting unit had no recorded goodwill. In addition to adjusting the allowance for loan and lease losses to reflect market conditions, we also may adjust the allowance because of unique events that cause actual losses to vary abruptly and significantly from expected losses. For example, class action lawsuits brought against an industry segment (e.g., one that used asbestos in its product) can cause a precipitous deterioration in the risk profile of borrowers doing business in that segment. Conversely, the dismissal of such lawsuits can improve the risk profile. In either case, historical loss rates for that industry segment would not have provided a precise basis for determining the appropriate level of allowance.

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Even minor changes in the level of estimated losses can significantly affect management s determination of the appropriate level of allowance because those changes must be applied across a large portfolio. To illustrate, an increase in estimated losses equal to one-tenth of one percent of our consumer loan portfolio as of December 31, 2010, would indicate the need for a $16 million increase in the level of the allowance. The same level of increase in estimated losses for the commercial loan portfolio would result in a $35 million increase in the allowance. Such adjustments to the allowance for loan and lease losses can materially affect financial results. Following the above examples, a $16 million increase in the consumer loan portfolio allowance would have reduced our earnings on an after-tax basis by approximately $10 million, or $.01 per share; a $35 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately $22 million, or $.02 per share.

As we make decisions regarding the allowance, we benefit from a lengthy organizational history and experience with credit evaluations and related outcomes. Nonetheless, if our underlying assumptions later prove to be inaccurate, the allowance for loan and lease losses would likely need to be adjusted, possibly having an adverse effect on our results of operations.

Our accounting policy related to the allowance is disclosed in Note 1 under the heading Allowance for Loan and Lease Losses.

Valuation methodologies

Effective January 1, 2008, we adopted the applicable accounting guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using internally developed models, which are based on third-party data as well as our judgment, assumptions and estimates regarding credit quality, liquidity, interest rates and other relevant market available inputs. We describe our adoption of this accounting guidance, the process used to determine fair values and the fair value hierarchy in Note 1 under the heading Fair Value Measurements and in Note 6 (Fair Value Measurements).

At December 31, 2010, $25.3 billion, or 28%, of our total assets were measured at fair value on a recurring basis. Substantially all of these assets were classified as Level 1 or Level 2 within the fair value hierarchy. At December 31, 2010, $2.2 billion, or 3%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

At December 31, 2010, $296 million, or 0.3%, of our total assets were measured at fair value on a nonrecurring basis. Approximately 13% of these assets were classified as Level 1 or Level 2. At December 31, 2010, there were no liabilities measured at fair value on a nonrecurring basis.

Valuation methodologies often involve significant judgment, particularly when there are no observable active markets for the items being valued. To determine the values of assets and liabilities, as well as the extent to which related assets may be impaired, we make assumptions and estimates related to discount rates, asset returns, prepayment rates and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results. The outcomes of valuations that we perform have a direct bearing on the recorded amounts of assets and liabilities, including loans held for sale, principal investments, goodwill, and pension and other postretirement benefit obligations.

A discussion of the valuation methodology applied to our loans held for sale is included in Note 1 under the heading Loans Held for Sale.

Our principal investments include direct and indirect investments, predominantly in privately-held companies. The fair values of these investments are determined by considering a number of factors, including the target company s financial condition and results of operations, values of public companies in comparable businesses, market liquidity, and the nature and duration of resale restrictions. The fair value of principal investments was $898 million at December 31, 2010; a 10% positive or negative variance in that fair value would have increased or decreased our 2010 earnings by approximately $90 million ($56 million after tax, or $.06 per share).

The valuation and testing methodologies used in our analysis of goodwill impairment are summarized in Note 1 under the heading Goodwill and Other Intangible Assets. The first step in testing for impairment is to determine the fair value of each reporting unit. Our reporting units for purposes of this testing are our two major business segments: Key Community Bank and Key Corporate Bank. Fair values are estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). We perform a sensitivity analysis of the estimated fair value of each reporting unit as appropriate. We believe the estimates and assumptions used in the goodwill impairment analysis for our reporting units are reasonable. However, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could change in the future.

The second step of impairment testing is necessary only if the carrying amount of either reporting unit exceeds its fair value, suggesting goodwill impairment. In such a case, we would estimate a hypothetical purchase price for the reporting unit (representing the unit s fair value) and then compare that hypothetical purchase price with the fair value of the unit s net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. An impairment loss would be recognized as a charge to earnings if the carrying amount of the reporting unit s goodwill exceeds the implied fair value of goodwill.

As a result of our sale of Tuition Management Systems in December 2010, customer relationship intangible assets of $15 million were written off against the purchase price to determine the net gain during 2010. During 2009, we recorded noncash charges for intangible assets impairment of $241 million ($192 million after tax, or $.28 per common share). See Note 10 (Goodwill and Other Intangible Assets) for a summary of the events that resulted in these charges.

Due to the economic uncertainty experienced since 2007, we have conducted quarterly reviews of the applicable goodwill impairment indicators and evaluated the carrying amount of our goodwill, as necessary.

The primary assumptions used in determining our pension and other postretirement benefit obligations and related expenses, including sensitivity analysis of these assumptions, are presented in Note 19 (Employee Benefits).

When potential asset impairment is identified, we must exercise judgment to determine the nature of the potential impairment (i.e., temporary or other-than-temporary) to apply the appropriate accounting treatment. For example, unrealized losses on securities available for sale that are deemed temporary are recorded in shareholders equity; those deemed other-than-temporary are recorded in either earnings or shareholders equity based on certain factors. Additional information regarding temporary and other-than-temporary impairment on securities available for sale at December 31, 2010, is provided in Note 7 (Securities).

Derivatives and hedging

We use primarily interest rate swaps to hedge interest rate risk for asset and liability management purposes. These derivative instruments modify the interest rate characteristics of specified on-balance sheet assets and liabilities. Our accounting policies related to derivatives reflect the current accounting guidance, which provides that all derivatives should be recognized as either assets or liabilities on the balance sheet at fair value, after taking into account the effects of master netting agreements. Accounting for changes in the fair value (i.e., gains or losses) of a particular derivative depends on whether the derivative has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship.

The application of hedge accounting requires significant judgment to interpret the relevant accounting guidance, as well as to assess hedge effectiveness, identify similar hedged item groupings, and measure changes in the fair value of the hedged items. We believe our methods of addressing these judgments and applying the accounting guidance are consistent with both the guidance and industry practices. However, interpretations of the applicable accounting guidance continue to change and evolve. In the future, these evolving interpretations could result in material changes to our accounting for derivative financial instruments and related hedging activities. Although such changes may not have a material effect on our financial condition, a change could have a material adverse effect on our results of operations in the period in which it occurs. Additional information relating to our use of derivatives is included in Note 1 under the heading Derivatives and Note 8 (Derivatives and Hedging Activities).

Contingent liabilities, guarantees and income taxes

Contingent liabilities arising from litigation and from guarantees in various agreements with third parties under which we are a guarantor, and the potential effects of these items on the results of our operations, are summarized in Note 16 (Commitments, Contingent Liabilities and Guarantees). We record a liability for the fair value of the obligation to stand ready to perform over the term of a guarantee, but there is a risk that our actual future payments in the event of a default by the guaranteed party could exceed the recorded amount. See Note 16 for a comparison of the liability recorded and the maximum potential undiscounted future payments for the various types of guarantees that we had outstanding at December 31, 2010.

It is not always clear how the Internal Revenue Code and various state tax laws apply to transactions that we undertake. In the normal course of business, we may record tax benefits and then have those benefits contested by the IRS or state tax authorities. We have provided tax reserves that we believe are adequate to absorb potential adjustments that such challenges may necessitate. However, if our judgment later proves to be inaccurate, the tax reserves may need to be adjusted, which could have an adverse effect on our results of operations and capital.

Additionally, we conduct quarterly assessments that determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies and projected future reversals of deferred tax items. These assessments are subjective and may change. Based on these criteria, and in particular our projections for future taxable income, we currently believe that it is more-likely-than-not that we will realize our net deferred tax asset in future periods. However, changes to the evidence used in our assessments could have a material adverse effect on our results of

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operations in the period in which they occur. For further information on our accounting for income taxes, see Note 12 (Income Taxes).

During 2010, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

Highlights of Our 2010 Performance

Financial performance

For 2010, we announced net income from continuing operations attributable to Key common shareholders of $390 million, or $.47 per Common Share. These results compare to a net loss from continuing operations attributable to Key common shareholders of $1.629 billion, or $2.27 per Common Share, for 2009.

Figure 3 shows our continuing and discontinued operating results for the past three years. Our financial performance for each of the past six years is summarized in Figure 4.

Figure 3. Results of Operations

Year ended December 31, *in millions, except per share amounts*	**2010**	**2009**	**2008**
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 577**	$ (1,287)	$ (1,295)
Income (loss) from discontinued operations, net of taxes [a]	**(23)**	(48)	(173)
Net income (loss) attributable to Key	**$ 554**	$ (1,335)	$ (1,468)
Income (loss) from continuing operations attributable to Key	**$ 577**	$ (1,287)	$ (1,295)
Less: Dividends on Series A Preferred Stock	**23**	39	25
Noncash deemed dividend common shares exchanged for Series A Preferred Stock		114	
Cash dividends on Series B Preferred Stock	**125**	125	15
Amortization of discount on Series B Preferred Stock	**16**	16	2
Income (loss) from continuing operations attributable to Key common shareholders	**413**	(1,581)	(1,337)
Income (loss) from discontinued operations, net of taxes [a]	**(23)**	(48)	(173)
Net income (loss) attributable to Key common shareholders	**$ 390**	$ (1,629)	$ (1,510)
PER COMMON SHARE - ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ .47**	$ (2.27)	$ (2.97)
Income (loss) from discontinued operations, net of taxes [a]	**(.03)**	(.07)	(.38)
Net income (loss) attributable to Key common shareholders	**$ .44**	$ (2.34)	$ (3.36)

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations in 2010 was primarily attributable to fair value adjustments related to the education lending securitization trusts. Included in the loss from discontinued operations in 2009 is a charge for intangible assets impairment related to Austin.

The earnings improvement in 2010 resulted from improved pre-provision net revenue and a lower provision for loan and lease losses when compared to 2009. Results in 2009 were adversely impacted by an elevated provision for loan and lease losses, write-offs of certain intangible assets and write-downs of certain commercial real estate related investments.

With three consecutive profitable quarters, and continued signs of increased economic activity on the part of our clients, we believe that we are positioned well to compete with other businesses in 2011. Our core financial measures strong capital, enhanced liquidity, adequate loan and lease loss reserves, as well as our exit from riskier lending categories represent a firm foundation for the year ahead.

Net interest margin from continuing operations was 3.26% for 2010. This was an increase of 43 basis points from 2009. This increase was primarily due to lower funding costs, which began in the latter part of 2009. We continue to experience an improvement in our mix of deposits by reducing the level of higher costing certificates of deposit and growing lower costing transaction accounts. This benefit to the net interest margin was partially offset by a lower level of average earning assets compared to the same period one year ago resulting from pay downs on loans. During 2009, our net interest margin was under pressure as the federal funds target rate was at low levels throughout the year. This resulted in a larger decrease in interest rates on earning assets than that experienced on interest-bearing liabilities.

We saw an increase in loan demand within our core commercial client base during the fourth quarter of 2010. Excluding the impact of our exit portfolios, our commercial and industrial and leasing portfolios both experienced loan growth for the first time since the fall of 2008. However, there can be no assurance this will continue in 2011, as many clients have sufficient liquidity resources to meet current operating needs.

In 2010, credit quality also continued to improve across the majority of the loan portfolios in both Key Community Bank and Key Corporate Bank. Net loan charge-offs and nonperforming loans declined each quarter during 2010. At December 31, 2010, nonperforming assets stood at their lowest level since the third quarter of 2008.

Net charge-offs for 2010 were $1.6 billion, a decrease of $687 million from 2009. During the same period, commercial loan net charge-offs decreased by $673 million, primarily driven by lower charge-offs from the commercial real estate construction portfolio.

At December 31, 2010, our nonperforming loans totaled $1.1 billion and represented 2.13% of period-end portfolio loans, compared to 3.72% at December 31, 2009. Nonperforming assets at December 31, 2010 totaled $1.3 billion and represented 2.66% of portfolio loans, OREO and other nonperforming assets, compared to $2.5 billion and 4.25% at December 31, 2009. Most of the reduction came from nonperforming loans in the commercial, financial and agricultural, the real estate commercial mortgage, and the real estate construction portfolios.

Our exit loan portfolio accounted for $210 million, or 15.70%, of total nonperforming assets at December 31, 2010, compared to $599 million, or 23.86%, at December 31, 2009.

Our allowance for loan and lease losses decreased to $1.6 billion from $2.6 billion one year ago. At December 31, 2010, our allowance represented 3.20% of total loans and 150.19% of nonperforming loans compared to 4.31% and 115.87%, respectively at December 31, 2009. One of our primary areas of focus has been to reduce our exposure to the higher risk segments of our commercial real estate portfolio. In addition, we are continuing to work down the loan portfolios that have been identified for exit to improve our risk-adjusted returns. Further information pertaining to our progress in reducing our commercial real estate exposure and our exit loan portfolio is presented in the section entitled Credit risk management.

At December 31, 2010, our Tier 1 common equity and Tier 1 risk-based capital ratios were 9.34% and 15.16%, compared to 7.50% and 12.75%, respectively at December 31, 2009. In 2009, we completed a series of successful transactions that generated approximately $2.4 billion of new Tier I common equity to strengthen our overall capital.

Additionally, we made significant progress on strengthening our liquidity and funding positions during 2010 while in the midst of weak loan demand and a soft economy. Our consolidated average loan to deposit ratio was 90% for the fourth quarter of 2010, compared to 97% for the fourth quarter of 2009. This improvement was accomplished by growing our noninterest-bearing deposits, NOW and money market deposits, reducing our reliance on wholesale funding, exiting nonrelationship businesses and increasing the portion of our earning assets invested in highly liquid securities. During 2010, we originated approximately $29.5 billion in new or renewed lending commitments.

Over the last two years, we have opened 77 new branches and renovated approximately 145 others, expanding Key s 14-state branch network to 1,033 branches. Further, we plan to build an additional 35-40 new branches in 2011. We also recently announced that we scored significantly higher than our four largest competitor banks in a third quarter of 2010 customer satisfaction survey conducted by the American Customer Satisfaction Index. Our scores were significantly better than bank industry scores across multiple dimensions, most notably in Customer Loyalty.

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Figure 4. Selected Financial Data

ept per share amounts	**2010**	**2009**	**2008**	**2007**	**2006** [c]	**2005**
EMBER 31,						
	$ 3,408	$ 3,795	$ 4,353	$ 5,336	$ 5,065	$ 4,122
	897	1,415	2,037	2,650	2,329	1,562
	2,511	2,380 [a]	2,316 [a]	2,686	2,736	2,560
lease losses	**638**	3,159	1,537	525	148	143
	1,954	2,035	1,847	2,241	2,124	2,058
	3,034	3,554	3,476	3,158	3,061	2,962
ntinuing operations nd cumulative effect of	**793**	(2,298)	(850)	1,244	1,651	1,513
ntinuing operations ore cumulative effect of	**577**	(1,287)	(1,295)	935	1,177	1,076
continued operations,	**(23)**	(48)	(173)	(16)	(127)	53
butable to Key before ccounting change	**554**	(1,335)	(1,468)	919	1,050	1,129
butable to Key	**554**	(1,335) [a]	(1,468) [a]	919	1,055	1,129
ntinuing operations nmon shareholders	**413**	(1,581)	(1,337)	935	1,182	1,076
continued operations,	**(23)**	(48)	(173)	(16)	(127)	53
butable to Key common	**390**	(1,629)	(1,510)	919	1,055	1,129
ARE						
ntinuing operations nmon shareholders ct of accounting change	**$ .47**	$ (2.27)	$ (2.97)	$ 2.39	$ 2.91	$ 2.63
continued operations[b]	**(.03)**	(.07)	(0.38)	(.04)	(.31)	.13
butable to Key before ccounting change	**.45**	(2.34)	(3.36)	2.35	2.60	2.76
butable to Key common	**.45**	(2.34)	(3.36)	2.35	2.61	2.76
ntinuing operations nmon shareholders ct of accounting tion	**$ .47**	$ (2.27)	$ (2.97)	$ 2.36	$ 2.87	$ 2.60
continued operations	**(.03)**	(.07)	(.38)	(.04)	(.31)	.13

ble to Key before ccounting ution	**.44**	(2.34)	(3.36)	2.32	2.56	2.73
butable to Key common ng dilution	**.44**	(2.34) (a)	(3.36) (a)	2.32	2.57	2.73
	.04	.0925	1.00	1.46	1.38	1.30
l	**9.52**	9.04	14.97	19.92	19.30	18.69
t year end	**8.45**	7.94	12.48	16.47	16.07	15.05
nd	**8.85**	5.55	8.52	23.45	38.03	32.93
	N/M	N/M	N/M	62.13 %	52.87 %	47.10
nmon shares outstanding	**874,748**	697,155	450,039	392,013	404,490	408,981
nmon shares and res outstanding (000)	**878,153**	697,155	450,039	395,823	410,222	414,014
	$ 50,107	$ 58,770	$ 72,835	$ 70,492	$ 65,480	$ 66,112
	76,211	80,318	89,759	82,865	77,146 (c)	76,908
	91,843	93,287	104,531	98,228	92,337 (c)	93,126
	60,610	65,571	65,127	62,934	58,901	58,539
	10,592	11,558	14,995	11,957	14,533	13,939
ders equity	**8,380**	7,942	7,408	7,746	7,703	7,598
uity	**11,117**	10,663	10,480	7,746	7,703	7,598
ATIOS						
rations:						
l assets	**.66 %**	(1.35) %	(1.29) %	1.02 %	1.34 %	1.27
nmon equity	**5.06**	(19.00)	(16.22)	12.11	15.28	14.69
E)	**3.26**	2.83	2.15	3.50	3.73	3.68
perations:						
l assets	**.59 %**	(1.34) %(a)	(1.41) %(a)	.97 %	1.12 %	1.24
nmon equity	**4.78**	(19.62) (a)	(18.32) (a)	11.90	13.64	15.42
E)	**3.16**	2.81 (a)	2.16 (a)	3.46	3.69	3.69
AT DECEMBER 31,						
uity to assets	**12.10 %**	11.43 %	10.03 %	7.89 %	8.34 %(c)	8.16
ders equity to tangible	**11.20**	10.50	8.96	6.61	7.04 (c)	6.68
ity to tangible assets	**8.19**	7.56	5.98	6.61	7.04 (c)	6.68
	9.34	7.50	5.62	5.74	6.47	6.07
al	**15.16**	12.75	10.92	7.44	8.24	7.59
l	**19.12**	16.95	14.82	11.38	12.43	11.47
	13.02	11.72	11.05	8.39	8.98	8.53
valent employees	**15,610**	16,698	18,095	18,934	20,006	19,485
	1,033	1,007	986	955	950	947

(a) See Figure 5, which presents certain earnings data and performance ratios, excluding charges related to goodwill and other intangible assets impairment and the tax treatment of certain leveraged lease financing transactions disallowed by the IRS. Figure 5 reconciles certain GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(b) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. We sold the subprime mortgage loan portfolio held by the Champion Mortgage finance business in November 2006, and completed the sale of Champion s origination platform in February 2007. As a result of these actions and decisions, we have accounted for these businesses as discontinued operations.

(c) Certain financial data for periods prior to 2007 have not been adjusted to reflect the effect of our January 1, 2008, adoption of new accounting guidance regarding the offsetting of amounts related to certain contracts.

Figure 5 presents certain financial measures related to tangible common equity and Tier 1 common equity. The tangible common equity ratio has been a focus for some investors. We believe this ratio may assist investors in analyzing our capital position without regard to the effects of intangible assets and preferred stock. Traditionally, the banking regulators have assessed bank and bank holding company capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. Since the commencement of the SCAP in early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 risk-based capital known as Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. This increased focus on Tier 1 common equity is also present in the Basel Committee s Basel III guidelines, which U.S. regulators are expected to adopt pursuant to regulations expected to be issued in the summer of 2011. The enactment of the Dodd-Frank Act also changes the regulatory capital standards that apply to bank holding companies by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities (excluding TARP CPP preferred stock issued to the United States or any federal government entity before October 4, 2010) being treated as Tier 1 eligible capital. This three year phase-out period, which commences January 1, 2013, will ultimately result in our capital securities being treated only as Tier 2 capital.

Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 5 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

The table also shows the computation for pre-provision net revenue, which is not formally defined by GAAP. Management believes that eliminating the effects of the provision for loan and lease losses makes it easier to analyze our results by presenting them on a more comparable basis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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Figure 5. GAAP to Non-GAAP Reconciliations

Year Ended December 31, *dollars in million, except per share amounts*	**2010**		**2009**	
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS				
Key shareholders equity (GAAP)	**$ 11,117**		$ 10,663	
Less: Intangible assets	**938**		967	
Preferred Stock, Series B	**2,446**		2,430	
Preferred Stock, Series A	**291**		291	
Tangible common equity (non-GAAP)	**$ 7,442**		$ 6,975	
Total assets (GAAP)	**$ 91,843**		$ 93,287	
Less: Intangible assets	**938**		967	
Tangible assets (non-GAAP)	**$ 90,905**		$ 92,320	
Tangible common equity to tangible assets ratio (non-GAAP)	**8.19**	**%**	7.56	%
TIER 1 COMMON EQUITY				
Key shareholders equity (GAAP)	**$ 11,117**		$ 10,663	
Qualifying capital securities	**1,791**		1,791	
Less: Goodwill	**917**		917	
Accumulated other comprehensive income (loss) [(a)]	**(66**	**)**	(48	)
Other assets [(b)]	**248**		632	
Total Tier 1 capital (regulatory)	**11,809**		10,953	
Less: Qualifying capital securities	**1,791**		1,791	
Preferred Stock, Series B	**2,446**		2,430	
Preferred Stock, Series A	**291**		291	
Total Tier 1 common equity (non-GAAP)	**$ 7,281**		$ 6,441	
Net risk-weighted assets (regulatory) [(b)]	**$ 77,921**		$ 85,881	
Tier 1 common equity ratio (non-GAAP)	**9.34**	**%**	7.50	%
PRE-PROVISION NET REVENUE				
Net interest income (GAAP)	**$ 2,511**		$ 2,380	
Plus: Taxable-equivalent adjustment	**26**		26	
Noninterest income	**1,954**		2,035	
Less: Noninterest expense	**3,034**		3,554	
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 1,457**		$ 887	

(a)

Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from our December 31, 2006, adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

(b) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed deferred tax assets of $158 at December 31, 2010 and $514 million at December 31, 2009, disallowed intangible assets (excluding goodwill), and deductible portions of nonfinancial equity investments.

Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments), Key Community Bank and Key Corporate Bank. During the first quarter of 2010, we re-aligned our reporting structure for our business segments. Prior to 2010, Consumer Finance consisted mainly of portfolios that were identified as exit or run-off portfolios and were included in our Key Corporate Bank segment. Effective for all periods presented, we are reflecting the results of these exit portfolios in Other Segments. The automobile dealer floor plan business, previously included in Consumer Finance, has been re-aligned with the Commercial Banking line of business within the Key Community Bank segment. In addition, other previously identified exit portfolios included in the Key Corporate Bank segment have been moved to Other Segments. Note 21 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and their respective lines of business, and explains Other Segments and Reconciling Items.

Figure 6 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for each of the past three years.

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Figure 6. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31, *dollars in millions*	2010	2009	2008	Change 2010 vs. 2009 Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,410**	$ 2,496	$ 2,538	$ (86)	(3.4) %
Key Corporate Bank	**1,679**	1,586	1,635	93	5.9
Other Segments	**363**	259	(620)	104	40.2
Total Segments	**4,452**	4,341	3,553	111	2.6
Reconciling Items[(a)]	**39**	100	156	(61)	(61.0)
Total	**$ 4,491**	$ 4,441	$ 3,709	$ 50	1.1 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 161**	(56)	$ 356	$ 217	N/M
Key Corporate Bank	**434**	$ (1,058)	(136)	1,492	N/M
Other Segments	**(14)**	(359)	(1,204)	345	N/M
Total Segments	**581**	(1,473)	(984)	2,054	N/M
Reconciling Items[(a)]	**(4)**	186	(311)	(190)	(102.2) %
Total	**$ 577**	$ (1,287)	$ (1,295)	$ 1,864	N/M

(a) Reconciling Items for 2009 include a $106 million credit to income taxes, due primarily to the settlement of IRS audits for the tax years 1997-2006. Results for 2009 also include a $32 million ($20 million after tax) gain from the sale of our claim associated with the Lehman Brothers bankruptcy and a $105 million ($65 million after tax) gain from the sale of our remaining equity interest in Visa Inc. Reconciling Items for 2008 include $120 million of previously accrued interest recovered in connection with our opt-in to the IRS global tax settlement and total charges of $505 million to income taxes for the interest cost associated with the leveraged lease tax litigation. Also, during 2008, Reconciling Items include a $165 million ($103 million after tax) gain from the partial redemption of our equity interest in Visa Inc. and a $17 million charge to income taxes for the interest cost associated with the increase to our tax reserves for certain LILO transactions.

Key Community Bank summary of operations

As shown in Figure 7, Key Community Bank recorded net income attributable to Key of $161 million for 2010, compared to a net loss of $56 million for 2009, and net income of $356 million for 2008. The increase in 2010 was the result of improvements in noninterest income, reductions in noninterest expense, and a significant decrease in the provision for loan and lease losses.

Taxable-equivalent net interest income declined by $104 million, or 6%, from 2009 as a result of a decrease in average earning assets, a decline in average deposits, and tighter deposit spreads. Average loans and leases declined by $2.7 billion, or 9%, due to reductions in the commercial loan and home equity portfolios, while average deposits declined $2.9 billion, or 6%. The decrease in average deposits reflects a strong mix shift in the portfolio, as average certificates of deposit declined $7 billion in 2010. Higher-costing certificates of deposit originated in prior years matured and repriced to current market rates, partially offset by growth in noninterest-bearing deposits and NOW accounts.

Noninterest income increased by $18 million, or 2%, from 2009 due in part to an increase in trust and investment services income of $20 million. Derivative revenue increased $21 million from 2009, due primarily to a reduction in the provision for credit losses from client derivatives. In addition, electronic banking fees increased $12 million, or 11% from 2009. These positive results were offset in part by a $28 million decrease in service charges on deposit accounts, resulting from both changes in customer behavior and the implementation of Regulation E.

The provision for loan and lease losses declined by $318 million, or 44%, from 2009. Key Community Bank s provision in excess of charge-offs for loan and lease losses declined by $372 million from 2009 reflecting improving economic conditions from one year ago. The improvement in this provision was partially offset by a $54 million increase in net loan charge-offs.

Noninterest expense decreased by $106 million, or 6%, from 2009, due in part to a $40 million decrease in the FDIC deposit insurance assessment. Also contributing to the year-over-year change in noninterest expense was a charge of $21 million recorded to the provision for losses on lending-related commitments in 2009, compared to a credit of $20 million recorded in 2010. Finally, corporate allocated costs declined $52 million. The improvement in these areas was partially offset by higher business services and professional fees reflecting the cost of our third-party mortgage operations and the continued investment in our branch network. Over the last two years, we have opened 77 new branches and renovated approximately 145 others as part of our branch modernization initiative.

In 2009, the $412 million decrease in net income attributable to Key was due in part to an increase in the provision for loan and lease losses of $452 million, coupled with a decrease in noninterest income of $57 million. In addition, noninterest expense

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increased $157 million, primarily due to an increase in FDIC deposit insurance expense. These changes more than offset a $15 million increase in net interest income.

Figure 7. Key Community Bank

Year ended December 31, *dollars in millions*	2010	2009	2008	Change 2010 vs. 2009 Amount	Change 2010 vs. 2009 Percent
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,619**	$ 1,723	$ 1,708	$ (104)	(6.0) %
Noninterest income	**791**	773	830	18	2.3
Total revenue (TE)	**2,410**	2,496	2,538	(86)	(3.4)
Provision for loan and lease losses	**413**	731	279	(318)	(43.5)
Noninterest expense	**1,828**	1,934	1,777	(106)	(5.5)
Income (loss) before income taxes (TE)	**169**	(169)	482	338	N/M
Allocated income taxes and TE adjustments	**8**	(113)	126	121	N/M
Net income (loss) attributable to Key	**$ 161**	$ (56)	$ 356	$ 217	N/M
AVERAGE BALANCES					
Loans and leases	**$ 27,046**	$ 29,747	$ 31,239	$ (2,701)	(9.1) %
Total assets	**30,244**	32,574	34,214	(2,330)	(7.2)
Deposits	**49,670**	52,541	50,398	(2,871)	(5.5)
Assets under management at year end	**$ 18,788**	$ 17,709	$ 15,486	$ 1,079	6.1 %

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31, *dollars in millions*	2010	2009	2008	Change 2010 vs. 2009 Amount	Change 2010 vs. 2009 Percent
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 19,682**	$ 17,515	$ 19,186	$ 2,167	12.4 %
Savings deposits	**1,855**	1,767	1,751	88	5.0
Certificates of deposits ($100,000 or more)	**6,065**	8,629	7,003	(2,564)	(29.7)
Other time deposits	**10,497**	14,506	13,293	(4,009)	(27.6)
Deposits in foreign office	**428**	567	1,187	(139)	(24.5)
Noninterest-bearing deposits	**11,143**	9,557	7,978	1,586	16.6
Total deposits	**$ 49,670**	$ 52,541	$ 50,398	$ (2,871)	(5.5) %

HOME EQUITY LOANS			
Average balance	**$ 9,773**	$ 10,214	$ 9,846
Weighted-average loan-to-value ratio (at date of origination)	**70 %**	70 %	70 %
Percent first lien positions	**53**	53	54
OTHER DATA			
Branches	**1,033**	1,007	986
Automated teller machines	**1,531**	1,495	1,478

Key Corporate Bank summary of operations

As shown in Figure 8, Key Corporate Bank recorded net income attributable to Key of $434 million for 2010, compared to a net loss attributable to Key of $1.058 billion for 2009 and a net loss attributable to Key of $136 million for 2008. The 2010 improvement was primarily due to a substantial decrease in the provision for loan and lease losses, improvement in noninterest income, and a decrease in noninterest expense. This improvement was moderated by a decline in net interest income that resulted from a reduction in average earning assets.

Taxable-equivalent net interest income declined by $77 million, or 9%, in 2010 compared to 2009, due primarily to a reduction in average earning assets, offset in part by improved earning asset yields and an increase in deferred loan fees. Average earning assets fell by $7.1 billion, or 24%, due primarily to reductions in the commercial loan portfolios. Average deposits declined by $484 million, or 4%.

Noninterest income increased by $170 million, or 24%, from 2009, due in part to net gains on certain commercial real estate investments. During 2010, these gains on certain commercial real estate investments totaled $7 million as compared to losses of $137 million in 2009 which reflected reductions in the fair values of certain commercial real estate related investments made by the Real Estate Capital and Corporate Banking Services line of business. Also contributing to the improvement in noninterest

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income was a $48 million improvement in net losses from loan sales, a $29 million improvement in investment banking income, and a $28 million gain from the sale of Tuition Management Systems in December 2010. The growth in noninterest income was offset in part by a $35 million decrease in trust and investment services income which was primarily due to reduced brokerage commissions in the Institutional and Capital Markets line of business. Noninterest income was also adversely impacted by a $29 million decline in operating lease revenue and a $13 million decrease in letter of credit fees.

The provision for loan and lease losses declined by $1.854 billion from 2009, reflecting lower levels of net loan charge-offs, primarily from the commercial loan portfolio. Key Corporate Bank s provision for loan and lease losses was less than net loan charge-offs by $635 million as we continued to experience improved asset quality.

During 2009, noninterest expense was adversely affected by intangible asset impairment charges totaling $241 million. These charges resulted from reductions in the estimated fair value of the Key Corporate Bank reporting unit caused by weakness in the financial markets and the write-off of other intangible assets related to our leasing operation. Excluding these intangible asset charges, noninterest expense declined by $86 million, or 8%, from 2009, due primarily to a $21 million credit to provision for losses on lending-related commitments recorded during 2010, compared to a $45 million charge recorded in 2009. A $20 million decline in operating lease expense, lower FDIC deposit insurance assessment, and a decrease in internally allocated overhead and support costs also contributed to the decrease in noninterest expense. These factors were partially offset by a $20 million increase in OREO expense, and increases in both personnel expense and miscellaneous expense.

In 2009, results were less favorable than they were in 2008 due to a $38 million, or 4%, reduction in net interest income, an $11 million, or 2%, decrease in noninterest income, and a $1.322 billion increase in the provision for loan and lease losses and a $121 million, or 10%, increase in noninterest expense. Noninterest expense in 2008 included an intangible asset impairment charge of $217 million compared to the $241 million charge in 2009 and a $7 million credit provision for losses on lending related-commitments compared to the $45 million charge in 2009.

Consistent with our strategy to focus on core relationship businesses, we sold Tuition Management Systems in December 2010.

Figure 8. Key Corporate Bank

Year ended December 31,				**Change 2010 vs. 2009**	
dollars in millions	**2010**	**2009**	**2008**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 803**	$ 880	$ 918	$ (77)	(8.8) %
Noninterest income	**876**	706	717	170	24.1
Total revenue (TE)	**1,679**	1,586	1,635	93	5.9
Provision for loan and lease losses	**(28)**	1,826	504	(1,854)	(101.5)
Noninterest expense	**1,024**	1,351	1,230	(327)	(24.2)
Income (loss) before income taxes (TE)	**683**	(1,591)	(99)	2,274	N/M
Allocated income taxes and TE adjustments	**250**	(528)	37	778	N/M
Net income (loss)	**433**	(1,063)	(136)	1,496	N/M
	(1)	(5)		4	N/M

Less: Net income (loss) attributable to noncontrolling interests											
Net income (loss) attributable to Key	**$**	**434**	$	(1,058)	$	(136)	$	1,492		N/M	
AVERAGE BALANCES											
Loans and leases	**$**	**20,368**	$	27,237	$	29,123	$	(6,869)		(25.2)	%
Loans held for sale		**314**		418		1,230		(104)		(24.9)	
Total assets		**24,342**		33,002		36,872		(8,660)		(26.2)	
Deposits		**12,407**		12,891		11,889		(484)		(3.8)	
Assets under management at year end	**$**	**41,027**	$	49,230	$	49,231	$	(8,203)		(16.7)	%

Other Segments

Other Segments consists of Corporate Treasury, our Principal Investing unit and various exit portfolios that previously were included in the Key Corporate Bank segment. These exit portfolios were moved to Other Segments during the first quarter of

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2010. Prior periods have been adjusted to conform to the current reporting of the financial information for each segment. Other Segments generated a net loss attributable to Key of $14 million for 2010, compared to a net loss attributable to Key of $359 million for 2009. The results reflect a $277 million increase in net interest income and a decrease in the loan loss provision of $331 million. Noninterest income results declined $173 million as increases in net gains from principal investing (including results attributable to noncontrolling interests) of $70 million, net gains on loan sales of $23 million and income from corporate-owned life insurance of $22 million were more than offset by declines in net securities gains of $126 million, gains on sales of leased equipment of $75 million and net gains of $78 million related to the exchange of common shares for capital securities during 2009. Noninterest expense results declined $110 million as OREO expense decreased $46 million, operating lease expense decreased $31 million and support and overhead charges decreased $20 million.

In 2009, Other Segments generated a net loss attributable to Key of $359 million, compared to a net loss attributable to Key of $1.2 billion for 2008. The results reflect a $564 million increase in net interest income and a decrease in the loan loss provision of $165 million. In 2008, net interest income was negatively impacted as a result of certain leveraged lease financing transactions that were challenged by the IRS. Noninterest income results improved $315 million as a result of increases in net securities gains of $125 million, net gains of $78 million related to the exchange of common shares for capital securities during 2009, gains on sales of leased equipment of $55 million and net gains from principal investing (including results attributable to noncontrolling interests) of $51 million. Noninterest expense results declined $197 million as the OREO expense increase of $54 million was more than offset by a decline in various other expense categories.

Results of Operations

Net interest income

One of our principal sources of revenue is net interest income. Net interest income is the difference between interest income received on earning assets (such as loans and securities) and loan-related fee income, and interest expense paid on deposits and borrowings. There are several factors that affect net interest income, including:

- the volume, pricing, mix and maturity of earning assets and interest-bearing liabilities;
- the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;
- the use of derivative instruments to manage interest rate risk;
- interest rate fluctuations and competitive conditions within the marketplace; and
- asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e., as if it were all taxable and at the same taxable rate). For example, $100 of tax-exempt income would be presented as $154, an amount that if taxed at the statutory federal income tax rate of 35% would yield $100.

Figure 9 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past six years. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those years. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing net interest income by average earning assets.

Taxable-equivalent net interest income for 2010 was $2.537 billion, and the net interest margin was 3.26%. These results compare to taxable-equivalent net interest income of $2.406 billion and a net interest margin of 2.83% for the prior year. The increase in the 2010 net interest margin is primarily attributable to lower funding costs. We continue to experience an improvement in the mix of deposits by reducing the level of higher costing certificates of deposit and growing lower costing transaction accounts. This benefit to the net interest margin was partially offset during 2010 by a lower level of average earning assets compared to the prior year resulting primarily from pay downs on loans. We also experienced improved yields on loans due to lower levels of nonperforming loans. Compared to the prior year, funding costs were also reduced by maturities of long-term debt and the 2009 exchanges of capital securities for our Common Shares.

In the prior year, the net interest margin remained under pressure as the federal funds target rate was at low levels. This resulted in a larger decrease in the interest rates on earning assets than that experienced for interest-bearing liabilities. Further compression of the 2009 net interest margin came from higher levels of nonperforming assets and the termination of certain leveraged lease financing arrangements.

Average earning assets for 2010 totaled $78.4 billion, which was $6.7 billion, or 8%, lower than the 2009 level. This reduction reflects a $12.4 billion decrease in loans during the year, caused by soft demand for credit, paydowns on our portfolios as

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commercial clients deleveraged, and the run-off in our exit portfolios. The decline in loans was partially offset by an increase of $7.6 billion in securities available for sale.

The size and composition of our loan portfolios were affected by the following actions during 2010 and 2009:

We sold $1.2 billion of commercial real estate loans during 2010 and $1.3 billion during 2009. Since some of these loans have been sold with limited recourse (i.e., there is a risk that we will be held accountable for certain events or representations made in the sales agreements), we established and have maintained a loss reserve in an amount that we believe is appropriate. More information about the related recourse agreement is provided in Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

In addition to the sales of commercial real estate loans discussed above, we sold other loans totaling $2 billion (including $1.6 billion of residential real estate loans) during 2010 and $1.8 billion (including $1.5 billion of residential real estate loans) during 2009.

In the fourth quarter of 2009, we transferred loans with a fair value of $82 million from held-for-sale status to the held-to-maturity portfolio as a result of current market conditions and our related plans to restructure the terms of these loans.

We sold $487 million of education loans (included in discontinued assets on the balance sheet) during 2010, and $474 million during 2009. In late September 2009, we decided to exit the government-guaranteed education lending business and have applied discontinued operations accounting to the education lending business for all periods presented in this report.

We transferred $193 million of loans ($248 million, net of $55 million in net charge-offs) from the held-to-maturity loan portfolio to held-for-sale status in late September 2009, in conjunction with additional actions taken to reduce our exposure in the commercial real estate and institutional portfolios through the sale of selected assets. Most of these loans were sold during October 2009.

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Figure 9. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

	2010			2009			2008	
er 31,	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest
and	$ 17,500	$ 813	4.64 %	$ 23,181	1,038	4.48%	$ 26,372	$ 1,446
cial	10,027	491	4.90	11,310 (d)	557	4.93	10,576	640
tion	3,495	149	4.26	6,206 (d)	294	4.74	8,109	461
ancing	6,754	352	5.21	8,220	369	4.48	9,642	(425)
ns	37,776	1,805	4.78	48,917	2,258	4.61	54,699	2,122
al	1,828	102	5.57	1,764	104	5.91	1,909	117
k	9,773	411	4.20	10,214	445	4.36	9,846	564
	751	57	7.59	945	71	7.52	1,171	90
ns	10,524	468	4.45	11,159	516	4.63	11,017	654
y	1,158	132	11.44	1,202	127	10.62	1,275	130
	2,497	155	6.23	3,097	193	6.22	3,586	226
	188	15	7.87	247	20	7.93	315	26
	2,685	170	6.34	3,344	213	6.35	3,901	252
	16,195	872	5.39	17,469	960	5.50	18,102	1,153
	53,971	2,677	4.96	66,386	3,218	4.85	72,801	3,275
	453	17	3.62	650	29	4.37	1,404	76
r sale	18,800	646	3.50	11,169	462	4.19	8,126	406
rities(b)	20	2	10.56	25	2	8.17	27	4
s	1,068	37	3.47	1,238	47	3.83	1,279	56
ts	2,684	6	.24	4,149	12	.28	1,615	31
	1,442	49	3.08	1,478	51	3.11	1,563	51
	78,438	3,434	4.39	85,095	3,821	4.49	86,815	3,899
d lease	(2,207)			(2,273)			(1,341)	
ther	11,243			12,349			14,736	
	6,677			4,269			4,180	

education								
	$ 94,151			$ 99,440			$ 104,390	
ket								
	$ 25,712	**91**	**.35**	24,345	124	.51	26,429	427
	1,867	**1**	**.06**	1,787	2	.07	1,796	6
	8,486	**275**	**3.24**	12,612	462	3.66	9,385	398
	10,545	**301**	**2.86**	14,535	529	3.64	13,300	556
fice	**926**	**3**	**.34**	802	2	.27	3,501	81
deposits	**47,536**	**671**	**1.41**	54,081	1,119	2.07	54,411	1,468
ed and								
	2,044	**6**	**.31**	1,618	5	.31	2,847	57
s	**545**	**14**	**2.63**	1,907	16	.84	5,931	130
	7,211	**206**	**3.09**	9,455	275	3.16	10,392	382
	57,336	**897**	**1.58**	67,061	1,415	2.13	73,581	2,037
eposits	**15,856**			12,964			10,596	
other								
	3,131			4,340			6,920	
s								
iness[e]	**6,677**			4,269			4,180	
	83,000			88,634			95,277	
uity	**10,895**			10,592			8,923	
sts	**256**			214			190	
	11,151			10,806			9,113	
equity	**$ 94,151**			$ 99,440			$ 104,390	
E)			**2.81 %**			2.36%		
TE) and								
		2,537	**3.26 %**		2,406	2.83%		1,862
		26			26			(454)
GAAP								
		$ 2,511			2,380			$ 2,316

Prior to the third quarter of 2009, average balances have not been adjusted to reflect our January 1, 2008, adoption of the applicable accounting guidance related to the offsetting of certain derivative contracts on the consolidated balance sheet.

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (e) below, calculated using a matched funds transfer pricing methodology.

(b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(c) For purposes of these computations, nonaccrual loans are included in average loan balances.

Figure 9. Consolidated Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations (Continued)

2007 nterest (a)	2007 Yield/ Rate (a)	2006 Average Balance	2006 Interest (a)	2006 Rate Yield/ (a)	2005 Average Balance	2005 Interest (a)	2005 Yield/ Rate (a)	Compound Rat of Cha (2005-2 Average Balance
1,622	7.23 %	$ 21,679	$ 1,547	7.13 %	$ 19,480	$ 1,083	5.56 %	(2.1) %
675	7.67	8,167	628	7.68	8,403	531	6.32	3.6
653	7.93	7,802	635	8.14	6,263	418	6.67	(11.0)
606	5.97	9,773	595	6.08	10,122	628	6.21	(7.8)
3,556	7.17	47,421	3,405	7.18	44,268	2,660	6.01	(3.1)
101	6.64	1,430	93	6.49	1,468	90	6.10	4.5
686	7.09	10,046	703	7.00	10,381	641	6.18	(1.2)
89	7.84	925	72	7.77	713	46	6.52	1.0
775	7.17	10,971	775	7.07	11,094	687	6.20	(1.0)
144	10.53	1,639	152	9.26	1,834	158	8.60	(8.8)
214	6.30	2,896	178	6.16	2,512	152	6.07	(.1)
28	8.93	285	27	9.33	432	38	8.68	(15.3)
242	6.52	3,181	205	6.44	2,944	190	6.45	(1.8)
1,262	7.25	17,221	1,225	7.11	17,340	1,125	6.49	(1.4)
4,818	7.19	64,642	4,630	7.16	61,608	3,785	6.14	(2.6)
108	6.35	1,187	83	7.01	939	87	9.22	(13.6)
380	5.04	7,125	307	4.26	6,934	260	3.74	22.1
2	6.68	47	3	7.43	76	5	7.30	(23.4)
38	4.10	857	30	3.51	933	27	2.90	2.7
37	4.34	791	33	4.15	927	25	2.68	23.7
52	3.33	1,362	82	5.78	1,379	54	3.79	.9
5,435	6.82	76,011	5,168	6.79	72,796	4,243	5.82	1.5
		(946)			(1,090)			15.2
		12,881			12,781			(2.5)
		3,756			3,422			14.3
		$ 91,702			$ 87,909			1.4 %

762	3.17		$ 25,044	710	2.84		$ 22,696	360	1.59		2.5%
3	.19		1,728	4	.23		1,941	5	.26		(.8)
321	5.02		5,581	261	4.67		4,957	189	3.82		11.4
550	4.68		11,592	481	4.14		10,789	341	3.16		(.5)
209	4.87		2,305	120	5.22		2,662	81	3.06		(19.0)
1,845	3.84		46,250	1,576	3.41		43,045	976	2.27		2.0
208	4.79		2,215	107	4.80		2,577	71	2.74		(4.5)
104	4.28		2,284	94	4.12		2,796	82	2.94		(27.9)
493	5.48		10,495	552	5.26		10,904	433	4.08		(7.9)
2,650	4.15		61,244	2,329	3.80		59,322	1,562	2.65		(.7)
			12,803				11,772				6.1
			6,077				5,997				(12.2)
			3,756				3,422				14.3
			83,880				80,513				.6
			7,734				7,323				8.3
			88				73				28.5
			7,822				7,396				8.6
			$ 91,702				$ 87,909				1.4%
	2.67	%			2.99	%			3.17	%	
2,785	3.50	%		2,839	3.73	%		2,681	3.68	%	
99				103				121			
2,686				$ 2,736				$ 2,560			

(d) In late March 2009, Key transferred $1.5 billion of loans from the construction portfolio to the commercial mortgage portfolio in accordance with regulatory guidelines pertaining to the classification of loans that have reached a completed status.

(e) Discontinued liabilities include the liabilities of the education lending business and the dollar amount of any additional liabilities assumed necessary to support the assets associated with this business.

(f) During the fourth quarter of 2008, our taxable-equivalent net interest income was reduced by $18 million as a result of an agreement reached with the IRS on all material aspects related to the IRS global tax settlement pertaining to certain leveraged lease financing transactions. During the second quarter of 2008, our taxable-equivalent net interest income was reduced by $838 million following an adverse federal court decision on our tax treatment of a leveraged sale-leaseback transaction. During the first quarter of 2008, we increased our tax reserves for certain LILO transactions and recalculated our lease income in accordance with prescribed accounting standards. These actions reduced our first quarter 2008 taxable-equivalent net interest income by $34 million. Excluding all of these reductions, the taxable-equivalent yield on our commercial lease financing portfolio would have been 4.82% for 2008, and our taxable-equivalent net interest margin would have been 3.13%.

(g) Yield is calculated on the basis of amortized cost.

(h) Rate calculation excludes basis adjustments related to fair value hedges.

Figure 10 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled Financial Condition contains additional discussion about changes in earning assets and funding sources.

Figure 10. Components of Net Interest Income Changes from Continuing Operations

	2010 vs. 2009				2009 vs. 2008			
in millions	**Average Volume**	**Yield/ Rate**	**Net Change**	(a)	Average Volume	Yield/ Rate	Net Change	(a)
INTEREST INCOME								
Loans	**$ (614)**	**$ 73**	**$ (541)**		$ (300)	$ 243	$ (57)	
Loans held for sale	**(8)**	**(4)**	**(12)**		(35)	(12)	(47)	
Securities available for sale	**273**	**(89)**	**184**		134	(78)	56	
Held-to-maturity securities						(2)	(2)	
Trading account assets	**(6)**	**(4)**	**(10)**		(2)	(7)	(9)	
Short-term investments	**(4)**	**(2)**	**(6)**		22	(41)	(19)	
Other investments	**(1)**	**(1)**	**(2)**		(3)	3		
Total interest income (TE)	**(360)**	**(27)**	**(387)**		(184)	106	(78)	
INTEREST EXPENSE								
NOW and money market deposit accounts	**7**	**(40)**	**(33)**		(31)	(272)	(303)	
Savings deposits		**(1)**	**(1)**			(4)	(4)	
Certificates of deposit ($100,000 or more)	**(138)**	**(49)**	**(187)**		123	(59)	64	
Other time deposits	**(128)**	**(100)**	**(228)**		49	(76)	(27)	
Deposits in foreign office		**1**	**1**		(37)	(42)	(79)	
Total interest-bearing deposits	**(259)**	**(189)**	**(448)**		104	(453)	(349)	
Federal funds purchased and securities sold under repurchase agreements	**1**		**1**		(18)	(34)	(52)	
Bank notes and other short-term borrowings	**(17)**	**15**	**(2)**		(60)	(54)	(114)	
Long-term debt	**(64)**	**(5)**	**(69)**		(32)	(75)	(107)	
Total interest expense	**(339)**	**(179)**	**(518)**		(6)	(616)	(622)	
Net interest income (TE)	**$ (21)**	**$ 152**	**$ 131**		$ (178)	$ 722	$ 544	

(a) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Noninterest income

Noninterest income for 2010 was $1.954 billion, down $81 million, or 4%, from 2009. In 2009, noninterest income increased by $188 million, or 10%, compared to 2008.

Several significant items affected noninterest income in 2010 and 2009. In 2010, we realized a gain of $28 million from the sale of Tuition Management Systems, which is recorded in miscellaneous income. In 2009, significant items include net gains of $125 million from the repositioning of the securities portfolio, $78 million recorded in connection with the exchange of Common Shares for capital securities, $32 million from the sale of our claim associated with the Lehman Brothers bankruptcy and $105 million gain from the sale of Visa Inc. shares.

Excluding the above items, noninterest income for 2010 increased by $231 million. As shown in Figure 11, we benefited from a $187 million increase in investment banking and capital market income, $76 million in net gains from loan sales in 2010 compared to a $1 million loss in 2009, and $66 million in net gains from principal investing (including results attributable to noncontrolling interests) in 2010 compared to a $4 million loss in 2009. These favorable results were partially offset by a $79 million decline in net gains on sale of leased equipment.

Significant items also influence a comparison of noninterest income for 2009 with that reported for 2008. We recorded a $105 million gain from the sale of Visa Inc. shares in 2009, compared to a $165 million gain from the partial redemption of Visa shares during 2008.

Excluding the above items, noninterest income for 2009 increased by $13 million. As shown in Figure 11, we benefited from an $81 million reduction in net losses from loan sales, a $59 million increase in net gains on sales of leased equipment, a $50 million decrease in net losses from principal investing (including results attributable to noncontrolling interest) and an increase in other income, due primarily to mortgage banking activities and the volatility associated with the hedge accounting applied to debt instruments. These factors were substantially offset by less favorable results from investment banking and capital market activities, as well as reductions in trust and investment services income, service charges on deposit accounts and operating lease income.

Figure 11. Noninterest Income

Year ended December 31, *dollars in millions*	**2010**	2009	2008	**Change 2010 vs. 2009** Amount	Percent
Trust and investment services income	**$ 444**	$ 459	$ 509	$ (15)	(3.3) %
Service charges on deposit accounts	**301**	330	365	(29)	(8.8)
Operating lease income	**173**	227	270	(54)	(23.8)
Letter of credit and loan fees	**194**	180	183	14	7.8
Corporate-owned life insurance income	**137**	114	117	23	20.2
Net securities gains (losses)	**14**	113	(2)	(99)	(87.6)
Electronic banking fees	**117**	105	103	12	11.4
Gains on leased equipment	**20**	99	40	(79)	(79.8)
Insurance income	**64**	68	65	(4)	(5.9)
Net gains (losses) from loan sales	**76**	(1)	(82)	77	N/M
Net gains (losses) from principal investing	**66**	(4)	(54)	70	N/M
Investment banking and capital markets income	**145**	(42)	68	187	N/M
Gain from sale/redemption of Visa Inc. shares		105	165	(105)	(100.0)
Gain (loss) related to exchange of common shares for capital securities		78		(78)	(100.0)
Other income:					
Gain from sale of Key s claim associated with the Lehman Brothers Bankruptcy		32		(32)	(100.0)
Credit card fees	**11**	14	16	(3)	(21.4)
Miscellaneous income	**192**	158	84	34	21.5
Total other income	**203**	204	100	(1)	(.5)
Total noninterest income	**$ 1,954**	$ 2,035	$ 1,847	$ (81)	(4.0) %

The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

<u>Trust and investment services income</u>

Trust and investment services are our largest source of noninterest income. The primary components of revenue generated by these services are shown in Figure 12. The 2010 decrease of $15 million, or 3%, is primarily attributable to lower fixed income sales reflected in brokerage commissions and fees. The increase in personal asset management and custody fees is largely offset by the impact of outflows in security lending assets and money market mutual funds reflected in institutional asset management and custody fees.

In 2009, we experienced a decrease of $50 million, or 10%, in trust and investment services income, which is attributable to reductions in both institutional and personal asset management income, as well as lower income from brokerage commissions and fees.

Figure 12. Trust and Investment Services Income

Year Ended December 31, *dollars in millions*	**2010**	2009	2008	**Change 2010 vs. 2009** Amount	Percent
Brokerage commissions and fee income	**$ 134**	$ 151	$ 159	$ (17)	(11.3) %
Personal asset management and custody fees	**149**	141	158	8	5.7
Institutional asset management and custody fees	**161**	167	192	(6)	(3.6)
Total trust and investment services income	**$ 444**	$ 459	$ 509	$ (15)	(3.3) %

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2010, our bank, trust and registered investment advisory subsidiaries had assets under management of

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$59.8 billion, compared to $66.9 billion at December 31, 2009. As shown in Figure 13, most of the decrease was attributable to reductions in the securities lending and money market portfolios, offset by an increase in the equity portfolio. The decline in the securities lending portfolio was due to relatively flat equity market activities, a decline on spreads, and client departures. When clients securities are lent out, the borrower must provide us with cash collateral, which is invested during the term of the loan. The difference between the revenue generated from the investment and the cost of the collateral is shared with the lending client. This business, although profitable, generates a significantly lower rate of return (commensurate with the lower level of risk) than other types of assets under management. The decline in the money market portfolio was due in part to the low rate environment as clients look for higher yields in other investment strategies. The decrease in the value of our portfolio of hedge funds is attributable to our second quarter 2009 decision to wind down the operations of Austin.

Figure 13. Assets Under Management

December 31, *dollars in millions*	**2010**	**2009**	**2008**	**Change 2010 vs. 2009** Amount	Percent
Assets under management by investment type:					
Equity	**$ 38,084**	$ 36,720	$ 29,384	$ 1,364	4 %
Securities lending	**5,716**	11,023	12,454	(5,307)	(48)
Fixed income	**10,191**	10,230	9,819	(39)	
Money market	**5,544**	7,861	10,520	(2,317)	(29)
Hedge funds(a)	**281**	1,105	2,540	(824)	(75)
Total	**$ 59,816**	$ 66,939	$ 64,717	$ (7,123)	(11) %
Proprietary mutual funds included in assets under management:					
Money market	**$ 4,047**	$ 5,778	$ 7,458	$ (1,731)	(30) %
Equity	**7,587**	7,223	5,572	364	5
Fixed income	**1,007**	775	640	232	30
Total	**$ 12,641**	$ 13,776	$ 13,670	$ (1,135)	(8) %

(a) Hedge funds are related to the discontinued operations of Austin.

Service charges on deposit accounts

The 2010 decrease in service charges on deposit accounts is due primarily to changing client behaviors involving lower overdraft transactions, which generate overdraft fees as well as a decline in other deposit service charge related fees. A recent component of the decrease was due to the implementation of Regulation E, which went into effect on July, 1, 2010 for new clients and August 15, 2010 for our existing clients. The decrease in service charges on deposit accounts associated with existing Regulation E rules was in line with our expectations.

The decrease from 2008 to 2009 was due primarily to lower overdraft transactions, which generated fewer overdraft fees. Additionally, because of the prevailing low interest rates and unlimited FDIC insurance, our corporate clients maintained larger amounts on deposit, which has the effect of reducing transaction service charges on their noninterest-bearing deposit accounts.

Operating lease income

Reduced originations of operating leases in 2010 were due to the related economics and resulted in a $54 million decrease in operating equipment leases recorded in the Equipment Finance line of business. Accordingly, as shown in Figure 15, depreciation expense associated with operating leases also declined. The $43 million decrease in 2009 operating lease income is also due to reduced originations.

Investment banking and capital markets income (loss)

As shown in Figure 14, income from investment banking and capital markets activities increased $187 million in 2010. Other investment income increased $109 million from 2009 resulting from lower losses from changes in the fair value of certain investments made by our Funds Management Group within Real Estate Capital and Corporate Banking Services line of business in Key Corporate Bank. At December 31, 2010, these securities had a carrying amount of approximately $1 million, representing 3% of their face value. Dealer trading and derivative losses decreased $54 million from 2009 due largely to a $36 million decrease in the provision for losses related to customer derivatives and $14 million decrease related to credit default swap valuation adjustments. Investment banking income also increased $29 million due primarily to increased levels of debt and equity financings.

The 2009 decline was driven by losses related to certain commercial real estate related investments, primarily due to changes in their fair values. Net losses from investments made by the Real Estate Capital and Corporate Banking Services line of business rose by $68 million from 2008. We also experienced a $36 million increase in losses associated with dealer trading and derivatives, due largely to credit default swap valuation adjustments.

Figure 14. Investment Banking and Capital Markets Income (Loss)

Year Ended December 31, *dollars in millions*	**2010**	2009	2008	Change 2010 vs. 2009 Amount	Change 2010 vs. 2009 Percent
Investment banking income (loss)	**$ 112**	$ 83	$ 85	$ 29	34.9 %
Income (loss) from other investments	**6**	(103)	(44)	109	N/M
Dealer trading and derivatives income (loss)	**(16)**	(70)	(34)	54	N/M
Foreign exchange income (loss)	**43**	48	61	(5)	(10.4) %
Total investment banking and capital markets income (loss)	**$ 145**	$ (42)	$ 68	$ 187	N/M

Net gains (losses) from loan sales

We sell loans to achieve desired interest rate and credit risk profiles of the overall loan portfolio. During 2010, we recorded $76 million of net gains from loan sales, compared to net losses of $1 million during 2009. We saw market liquidity strengthen beginning in the latter half of 2010 and took the opportunity to continue to sell our nonperforming loans. We were encouraged by the fact that we were able to sell these assets at values close to their carrying values recorded on our books. The types of loans sold during 2010 and 2009 are presented in Figure 22.

Net gains (losses) from principal investing

Principal investments consist of direct and indirect investments in predominantly privately-held companies. Our principal investing income is susceptible to volatility since most of it is derived from mezzanine debt and equity investments in small to medium-sized businesses. These investments are carried on the balance sheet at fair value ($898 million at December 31, 2010, and $1.0 billion at December 31, 2009). We had $66 million in gains from principal investing for 2010, as presented in Figure 11. These gains are derived largely from changes in fair values, in our indirect and venture capital areas, as well as sales of principal investments.

Noninterest expense

As shown in Figure 15, noninterest expense for 2010 was $3.034 billion, down $520 million, or 15%, from 2009. In 2009, noninterest expense rose by $78 million, or 2% from 2008.

In 2010, personnel expense decreased by $43 million. Excluding intangible assets impairment charges of $241 million, nonpersonnel expense decreased by $279 million due primarily to a $115 million decrease in provision for losses on lending-related commitments, a $53 million decrease in FDIC assessment expense, a $53 million decrease in operating lease expense and a $29 million decrease in OREO expense.

The decrease in provision for losses on lending-related commitments is due to a $48 million credit during 2010 as a result of improved credit quality and a lower level of unfunded commitments.

FDIC assessment expense decreased because we recorded a one-time special assessment in the second quarter of 2009, the result of opting out of the TAG program effective July 1, 2010 and because insured deposits decreased.

OREO expense decreased as a result of improved liquidity for income producing properties in 2010, resulting in fewer write-downs compared to one year ago.

In 2009, personnel expense decreased by $67 million from 2008. Excluding intangible assets impairment charges, nonpersonnel expense increased by $373 million, due primarily to a $167 million increase in the FDIC deposit insurance assessment, a $81 million increase in costs associated with OREO, a $46 million increase in business services and professional fees and a $67 million provision for losses on lending-related commitments recorded during the current year, compared to a $26 million credit recorded for 2008. Additionally, nonpersonnel expense for 2009 was reduced by a $23 million credit (included in miscellaneous expense), representing the reversal of the remaining litigation reserve associated with the previously reported

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Honsador litigation settled in September 2008. The increase in nonpersonnel expense, compared to 2009, was moderated by decreases of $29 million in operating lease expense and $15 million in marketing expense. More information about the intangible assets impairment charges is provided in this section under the heading Intangible assets impairment.

Figure 15. Noninterest Expense

Year Ended December 31, *dollars in millions*	**2010**	2009	2008	**Change 2010 vs. 2009** Amount	Percent
Personnel	**$ 1,471**	$ 1,514	$ 1,581	$ (43)	(2.8) %
Net occupancy	**270**	259	259	11	4.2
Operating lease expense	**142**	195	224	(53)	(27.2)
Computer processing	**185**	192	187	(7)	(3.6)
Business services and professional fees	**176**	184	138	(8)	(4.3)
FDIC assessment	**124**	177	10	(53)	(29.9)
OREO expense, net	**68**	97	16	(29)	(29.9)
Equipment	**100**	96	92	4	4.2
Marketing	**72**	72	87		
Provision (credit) for losses on lending-related commitments	**(48)**	67	(26)	(115)	N/M
Intangible assets impairment		241	469	(241)	(100.0)
Other expense:					
Postage and delivery	**30**	33	46	(3)	(9.1)
Franchise and business taxes	**27**	31	30	(4)	(12.9)
Telecommunications	**22**	26	30	(4)	(15.4)
Provision for losses on LIHTC guaranteed funds	**8**	17	17	(9)	(52.9)
Miscellaneous expense	**387**	353	316	34	9.6
Total other expense	**474**	460	439	14	3.0
Total noninterest expense	**$ 3,034**	$ 3,554	$ 3,476	$ (520)	(14.6) %
Average full-time equivalent employees[a]	**15,610**	16,698	18,095	(1,088)	(6.5) %

(a) The number of average full-time-equivalent employees has not been adjusted for discontinued operations.

The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

Personnel

As shown in Figure 16, personnel expense, the largest category of our noninterest expense, decreased by $43 million, or 3%, in 2010, following a $67 million, or 4%, decline in 2009 from 2008. The 2010 decrease was due largely to a $79 million decrease in our employee benefits expense. The employee benefits expense decrease was caused by a decline in pension expense as a result of amending our pension plans to freeze all benefit accruals and the resulting change in certain pension plan assumptions. For more information related to our pension plans, see Note 19 (Employee Benefits). Severance expense also decreased by $17 million. The decrease in personnel expense was partially offset by $44 million in increased incentive compensation accruals on improved profitability and an increase of $1 million in stock-based compensation. The $8 million increase in salaries includes an $18 million decline in levels of deferred compensation (which has the effect of increasing salaries) and the impact of base salary increases, which are partially offset by lower levels of contract labor and the impact of a 7% decrease in the number of average full-time equivalent employees from 2009.

The 2009 decrease was due largely to a reduction in incentive compensation accruals and salaries expense. The $44 million decrease in salaries includes a $38 million decline in levels of deferred compensation (which has the effect of increasing salaries) and the impact of base salary increases, which are partially offset by lower levels of contract labor and the impact of an 8% decrease in the number of average full-time equivalent employees. We also experienced a substantial increase in pension expense in 2009 attributed primarily to lower expected returns and an increase in the amortization of losses, resulting from the decrease in the value of pension plan assets following steep declines in the equity markets in 2008.

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Figure 16. Personnel Expense

Year Ended December 31,				Change 2010 vs. 2009	
dollars in millions	**2010**	**2009**	**2008**	**Amount**	**Percent**
Salaries	**$ 913**	$ 905	$ 949	$ 8	.9 %
Incentive compensation	**266**	222	279	44	19.8
Employee benefits	**224**	303	255	(79)	(26.1)
Stock-based compensation	**52**	51	50	1	2.0
Severance	**16**	33	48	(17)	(51.5)
Total personnel expense	**$ 1,471**	$ 1,514	$ 1,581	$ (43)	(2.8) %

(a) Excludes directors stock-based compensation of $2 million in 2010, $3 million in 2009 and ($.8) million in 2008 reported as miscellaneous expense in Figure 15.

Intangible assets impairment

During the third quarter of 2009, we recorded a $45 million charge to write-off intangible assets, other than goodwill, associated with actions taken to cease conducting business in certain equipment leasing markets. During the first quarter of 2009, we determined that the estimated fair value of our Key Corporate Bank reporting unit was less than the carrying amount, reflecting continued weakness in the financial markets. As a result, we recorded a pre-tax noncash accounting charge of $223 million, of which $27 million related to the discontinued operations of Austin. As a result of this charge, we have now written off all of the goodwill that had been assigned to Key Corporate Bank.

Operating lease expense

The decrease in operating lease expense in both 2010 and 2009 is primarily attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 11 as operating lease income.

FDIC Assessment

FDIC assessment expense was unfavorably impacted in 2009 primarily by a one time special assessment recorded in the second quarter of 2009. This increase was partially offset by opting out of the TAG program effective July 1, 2010.

OREO expense

OREO expense decreased in 2010 primarily as a result of $7 million in net gain on sales recorded in 2010 compared to net loss on sales of $26 million in 2009. OREO expense increased $81 million in 2009 from 2008 due largely to valuation write-downs totaling $60 million.

Provision (credit) for losses on lending-related commitments

The provision for losses on lending-related commitments fluctuated during the prior year as a result of variability in underlying credit quality and levels of unfunded commitments.

Income taxes

We recorded a tax provision from continuing operations of $186 million for 2010, compared to a tax benefit of $1.035 billion for 2009 and a provision of $437 million for 2008. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 23.4% for 2010, compared to 45.0% for 2009 and (51.4%) for 2008.

Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects and make periodic adjustments, to our tax reserves. During 2010, we recorded domestic deferred income tax expense of $32 million as the result of management s change in assertion as to indefinitely reinvesting in non-US subsidiaries. Additionally, in 2009, we recorded a $106 million credit to income taxes, due primarily to the settlement of IRS audits for the tax years 1997-2006. The credit includes a final adjustment of $80 million related to the resolution of certain lease financing tax issues. In 2008, we recorded $586 million tax provision in connection with the leverage lease tax litigation, which became final in 2009.

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Financial Condition

Loans and loans held for sale

Figure 17 shows the composition of our loan portfolio at December 31, for each of the past five years.

Figure 17. Composition of Loans

December 31,	2010		2009		2008	
dollars in millions	Amount	% of Total	Amount	% of Total	Amount	% of Total
COMMERCIAL						
Commercial, financial and agricultural	$ **16,441**	**32.8** %	$ 19,248	32.7 %	$ 27,260	37.4 %
Commercial real estate:[a]						
Commercial mortgage	**9,502**	**19.0**	10,457 (b)	17.8	10,819	14.9
Construction	**2,106**	**4.2**	4,739 (b)	8.1	7,717	10.6
Total commercial real estate loans	**11,608**	**23.2**	15,196	25.9	18,536	25.5
Commercial lease financing	**6,471**	**12.9**	7,460	12.7	9,039	12.4
Total commercial loans	**34,520**	**68.9**	41,904	71.3	54,835	75.3
CONSUMER						
Real estate residential mortgage	**1,844**	**3.7**	1,796	3.1	1,908	2.6
Home equity:						
Key Community Bank	**9,514**	**19.0**	10,048	17.1	10,124	13.9
Other	**666**	**1.3**	838	1.4	1,051	1.4
Total home equity loans	**10,180**	**20.3**	10,886	18.5	11,175	15.3
Consumer other Key Community Bank	**1,167**	**2.3**	1,181	2.0	1,233	1.7
Consumer other:						
Marine	**2,234**	**4.5**	2,787	4.7	3,401	4.7
Other	**162**	**.3**	216	.4	283	.4
Total consumer other	**2,396**	**4.8**	3,003	5.1	3,684	5.1
Total consumer loans	**15,587**	**31.1**	16,866	28.7	18,000	24.7
Total loans[c]	$ **50,107**	**100.0** %	$ 58,770	100.0 %	$ 72,835	100.0 %

	2007			2006		
	Amount	% of Total		Amount	% of Total	
COMMERCIAL						
Commercial, financial and agricultural	$ 24,797	35.2	%	$ 21,412	32.7	%
Commercial real estate: [a]						
Commercial mortgage	9,630	13.7		8,426	12.9	
Construction	8,102	11.5		8,209	12.5	
Total commercial real estate loans	17,732	25.2		16,635	25.4	
Commercial lease financing	10,176	14.4		10,259	15.7	
Total commercial loans	52,705	74.8		48,306	73.8	
CONSUMER						
Real estate residential mortgage	1,594	2.3		1,442	2.2	
Home equity:						
Key Community Bank	9,655	13.7		9,805	15.0	
Other	1,262	1.8		1,021	1.6	
Total home equity loans	10,917	15.5		10,826	16.6	
Consumer other Key Community Bank	1,298	1.8		1,536	2.3	
Consumer other:						
Marine	3,637	5.1		3,077	4.7	
Other	341	.5		294	.4	
Total consumer other	3,978	5.6		3,371	5.1	
Total consumer loans	17,787	25.2		17,175	26.2	
Total loans[c]	$ 70,492	100.0	%	$ 65,481	100.0	%

(a) See Figure 18 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2010.

(b) In late March 2009, we transferred $1.5 billion of loans from the construction portfolio to the commercial mortgage portfolio in accordance with regulatory guidelines pertaining to the classification of loans for projects that have reached a completed status.

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(c) Excludes loans in the amount of $6.5 billion at December 31, 2010, $3.5 billion at December 31, 2009, $3.7 billion at December 31, 2008, $331 million at December 31, 2007, and $345 million at December 31, 2006, related to the discontinued operations of the education lending business.

At December 31, 2010, total loans outstanding were $50.1 billion, compared to $58.8 billion at the end of 2009 and $72.8 billion at the end of 2008. Loans related to the discontinued operations of the education lending business, and excluded from total loans were $6.5 billion at December 31, 2010, $3.5 billion at December 31, 2009, and $3.7 billion at December 31, 2008. Further information regarding our discontinued operations is provided in the section entitled Consumer loan portfolio within this discussion. The decrease in our loans from continuing operations over the past two years reflects reductions in most of our portfolios, with the largest decline experienced in the commercial portfolio.

Commercial loan portfolio

Commercial loans outstanding were $34.5 billion at December 31, 2010, a decrease of $7.4 billion, or 18%, since December 31, 2009. This decrease was caused by continued soft demand for credit due to our clients use of the strength of the capital markets to raise debt and equity, pay downs on our portfolios and the run-off in our exit loan portfolio as we continue to reduce our risk. We are beginning to see pockets of improvements in commercial lending as business is strengthening in certain regions.

Commercial, financial and agricultural. As shown in Figure 17, our Commercial, Financial and Agricultural loans, also referred to as Commercial and Industrial, represent 33% of our total loan portfolio at December 31, 2010 and 2009 and are the largest component of our total loans. The loans are comprised of fixed and variable rate loans to our large, middle market and small business clients. These loans decreased $2.8 billion or 15% from one year ago. Most of the decrease which occurred during the first half of 2010 was attributable to our clients using the capital markets to pay down their bank debt. In the latter half of 2010, our commercial, financial and agricultural portfolio began to stabilize.

Commercial real estate loans. Commercial real estate loans represent approximately 23% of our total loan portfolio. These loans include both owner and nonowner-occupied properties and constitute approximately 34% of our commercial loan portfolio. As shown in Figure 18, at December 31, 2010, our commercial real estate portfolio included mortgage loans of $9.5 billion and construction loans of $2.1 billion. The total commercial real estate loans for 2010 and 2009 represent 23% and 26%, respectively, of our total loans. Nonowner-occupied loans represent 16% of our total loans and owner-occupied loans represent 7% of our total loans. The average mortgage loan originated during 2010 was $2.9 million, and our largest mortgage loan at December 31, 2010, had a balance of $121 million. At December 31, 2010, our average construction loan commitment was $3.8 million. Our largest construction loan commitment was $49 million, $48.1 million of which was outstanding at December 31, 2010.

Our commercial real estate lending business is conducted through two primary sources: our 14-state banking franchise, and Real Estate Capital and Corporate Banking Services, a national line of business within Key Corporate Bank that cultivates relationships both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 60% of our average year-to-date commercial real estate loans during 2010, compared to 59% one year ago. Our commercial real estate business generally focuses on larger real estate developers and owners. As shown in Figure 18, this loan portfolio is diversified by both property type and geographic location of the underlying collateral. Figure 18 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank.

Figure 18. Commercial Real Estate Loans

2010 *ons*	**West**	**Southwest**	**Geographic Region** **Central**	**Midwest**	**Southeast**	**Northeast**	**Total**	**Percent of Total**	**Construction**
upied:									
perties	$ 108	$ 40	$ 105	$ 68	$ 116	$ 88	$ 525	4.5 %	$ 376
es	377	209	207	502	588	234	2,117	18.2	419
	202	229	358	223	433	250	1,695	14.6	474
s	154	74	218	142	94	308	990	8.5	222
opment	22	19	43	31	69	78	262	2.3	162
s	300		178	227	217	175	1,097	9.5	61
	203		42	88	86	88	507	4.4	22
	54		46	5	160	43	308	2.7	61
facilities	3		3	8		10	24	.2	
	84	2	13	64	87	100	350	3.0	38
r-occupied	1,507	573	1,213	1,358	1,850	1,374	7,875	67.9	1,835
d	1,506	63	340	838	164	822	3,733	32.1	271
	$ 3,013	$ 636	$ 1,553	$ 2,196	$ 2,014	$ 2,196	$ 11,608	100.0 %	$ 2,106
upied:									
loans	$ 99	$ 47	$ 58	$ 44	$ 115	$ 45	$ 408	N/M	$ 226
past due e	3	21	11	20	16	3	74	N/M	37
past due lays	11	23	10	4		14	62	N/M	30

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West Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington and Wyoming
Southwest Arizona, Nevada and New Mexico
Central Arkansas, Colorado, Oklahoma, Texas and Utah
Midwest Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin
Southeast Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Washington, D.C. and West Virginia
Northeast Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont

During 2010, nonperforming loans related to our nonowner-occupied properties decreased by $680 million attributable to improved asset quality and market conditions. This compares to an increase of $605 million during 2009, which was due to the deteriorating market conditions in both the income properties and residential properties segments of our commercial real estate construction portfolio. As previously reported, we have undertaken a process to reduce our exposure in the residential properties segment of our construction loan portfolio through the sale of certain loans.

The secondary market for income property loans has been severely constrained for the past three years and is expected to remain so for the foreseeable future. In years prior to the economic downturn, we did not provide permanent financing for our clients upon the completion of their construction projects; permanent financing had been provided by the commercial mortgage-backed securities market or other lenders. With other sources of permanent commercial mortgage financing constrained, we are currently providing interim financing for certain of our relationship clients when their commercial real estate construction projects are completed. During 2010 and 2009, we extended the maturities, for up to five years, of certain existing loans to commercial real estate relationship clients with projects at or near completion. We applied normal customary underwriting standards to these longer-term extensions and generally received market rates of interest and additional fees, offering permanent market proxy fixed rates where appropriate, to mitigate the potential impact of rising interest rates. In cases where the terms were at less than normal market rates for similar lending arrangements, we have transferred these loans to the Asset Recovery Group for resolution. In 2010, there were $204 million of new restructured loans included in nonperforming loans, of which $67 million related to commercial real estate.

As shown in Figure 18, at December 31, 2010, 68% of our commercial real estate loans were for nonowner-occupied properties, compared to 71% at December 31, 2009. Approximately 23% and 40% of these loans were construction loans at December 31, 2010 and 2009, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. Uncertain economic conditions generally slow the execution of new leases and may also lead to the turnover of existing leases, driving rental rates and occupancy rates down. As we have experienced during 2010, we expect vacancy rates for retail, office and industrial space to remain elevated and possibly increase well into 2011.

Commercial real estate fundamentals appear to be approaching bottom, and certain sectors (i.e., apartments) are showing solid signs of improvement. According to Property and Portfolio Research, Inc., vacancy fell in the third quarter of 2010 in every major property type, but it remained above year-ago levels with the exception of apartments. Rent growth remains flat to negative (again with the exception of apartments), and is at or nearing a trough; however, modest declines are possible over the next year in office, retail, and warehouse property types. Once rents bottom, the anticipated recovery will likely be modest.

If the economic recovery stalls, and/or job growth continues to disappoint, vacancies will remain elevated and downward pressure on rents and net operating income will remain. The resulting effect would likely be most noticeable in the nonowner-occupied properties segment of our commercial real estate loan portfolio, particularly in the retail properties and office buildings components, which comprise 27% of our commercial real estate loans.

Commercial property values peaked in the fall of 2007, having experienced increases of approximately 30% since 2005 and 90% since 2001. The most recent Moody s Real Estate Analytics, LLC Commercial Property Price Index (December 2010) shows a 42% drop in values from the peak, up 3.2% in the past year. As of October 2010, prices were up a modest 1.3% over the prior month, the second consecutive monthly gain. While overall prices may be reaching a bottom, market averages obscure divergent trends by asset quality and location. Competition for the best assets in the top markets is driving prices higher, while weak demand and continued uncertainty is keeping prices for distressed assets low and keeping trends negative.

If the factors described above result in further weakening in the fundamentals underlying the commercial real estate market (i.e., vacancy rates, the stability of rental income and asset values), and lead to reduced cash flow to support debt service payments, our ability to collect such payments and the strength of our commercial real estate loan portfolio could be adversely affected.

Commercial lease financing. We conduct financing arrangements through our Equipment Finance line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 19% of commercial loans at December 31, 2010, and 18% at December 31, 2009. As previously reported, we ceased conducting new business in both the commercial vehicle and office equipment leasing markets during the second half of 2009.

Commercial loan modification and restructuring

Certain commercial loans are modified and extended in the normal course of business for our clients. Loan modifications vary and are handled on a case by case basis with strategies responsive to the specific circumstances of each loan and borrower. In many cases, borrowers have other resources and can reinforce the credit with additional capital, collateral, guarantees or income sources.

Modifications are negotiated to achieve fair and mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not experiencing financial difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, TDR classification occurs when the borrower is experiencing financial difficulties and a creditor concession has been granted.

Our concession types are primarily categorized as interest rate reductions, principal deferral, or forgiveness of principal. Loan extensions are sometimes coupled with these primary concession types. The table below provides the amount of TDRs by the primary type of concession made at each period end. Since our volume of TDR activity is relatively new over the last five quarters, it is too early to gauge the success of the different types of concessions. Our success will be significantly influenced by economic conditions going forward. Although we have restructured these loans to provide the best opportunity for successful repayment by the borrowers, given the uncertainty of the current economic situation, we are not able to predict how these restructured notes will ultimately perform.

Figure 19 shows our concession types for our commercial accruing and nonaccruing TDRs.

Figure 19. Commercial Loan Accruing and Nonaccruing TDRs

December 31,

in millions	**2010**	**2009**
Interest rate reduction	**$ 188**	$ 335
Forgiveness of principal	**38**	26
Other modification of loan terms	**14**	
Total Commercial TDRs [a]	**$ 240**	$ 361
Total Commercial and Consumer TDRs	**$ 297**	$ 364
Total commercial TDRs to total commercial loans	**.70 %**	.86 %
Total commercial TDRs to total loans	**.48**	.61
Total commercial loans	**$ 34,520**	$ 41,904
Total loans	**50,107**	58,770

(a) Prior to 2009, the amounts of TDRs were negligible, and therefore we have not included such periods in the figure above.

Figure 20 quantifies restructured loans, TDRs, using our three-note structure.

Figure 20. Commercial TDRs by Note Type and Accrual Status

December 31, *in millions*		**2010**		**2009**
Commercial TDRs by Note Type				
Tranche A	$	**226**	$	258
Tranche B		**14**		85
Tranche C				18
Total Commercial TDRs [a]	$	**240**	$	361
Commercial TDRs by Accrual Status				
Nonaccruing	$	**148**	$	139
Accruing		**67**		222
Held for sale		**25**		
Total Commercial TDRs [a]	$	**240**	$	361
Total Commercial and Consumer TDRs	$	**297**	$	364

(a) Prior to 2009, the amounts of TDRs were negligible, and therefore we have not included such periods in the figure above.

The benefits derived from multiple note TDRs are recognized when the underlying assets (predominantly commercial real estate) have been stabilized with a level of leverage supportable by ongoing cash flows. Right-sizing the A note to sustainable cash flow should ultimately allow for its return to accrual status and thereupon a resumption of interest income recognition. Similarly, appropriately sized A notes will allow for upgraded credit classification based on rehabilitated credit metrics including demonstrated payment performance. Other benefits include the borrower s retention of ownership and control of the asset, deleveraged and sustainable capital structure (often sufficient to attract fresh capital into the transaction) and rehabilitation of local markets by minimizing distressed/fire sales.

As the objective of the multiple notes TDR is to achieve a fully performing and well-rated A note, we focus on sizing the A note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This typically will include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest and principal amortization of generally not more than 25 years.

The B note is typically an interest only note with no required amortization until the property stabilizes and generates excess cash flow which is customarily applied directly to principal. The B note is subsequently evaluated at such time when accrual restoration of the A note is under consideration. In many cases, the B note has then been charged-off contemporaneously with the A note being returned to accrual status. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive as set forth above. In many cases where a three (A, B, C) note structure has been utilized, the C notes are fully charged-off at the time of the TDR. In the very few instances where the C note is not charged-off, there is a pending equity event, additional leasing or pending sale of developed units that support the C note balance shortly after the TDR.

All loans processed as a TDR, including A notes and any non-charged-off B or C notes, are reported as TDRs during the year in which they are consummated. Returning an A note to accrual status requires a reasonable level of certainty that the balance of principal and interest is fully collectable over time.

Our policy requires a sustained period of timely principal and interest payments to restore a loan to accrual status. Primary repayment derived from property cash flow is evaluated for risk of continued sustainability while secondary repayment (collateral) is appraised to ensure that market value exceeds the carrying value of the A note with a sufficient excess (generally 20%). Although our policy is a guideline, considerable judgment is required to review each borrower s circumstances.

Extensions

Certain commercial loans are modified and extended in the normal course of business for our clients. Project loans are typically refinanced into the permanent commercial loan market at maturity; however, due to the limited sources of permanent commercial mortgage financing available in the market today and the market-wide decline in leasing activity and rental rates, an increased number of loans have been extended. Extension terms take into account the specific circumstances of the client relationship, the status of the project and near-term prospects for both the client and the collateral. In all cases, pricing and loan structure are reviewed and (where necessary) modified to ensure the loan has been priced to achieve a market rate of return and loan terms (i.e., amortization, covenants and term) that are appropriate for the risk. Typical enhancements include one or more of the following: principal paydown, increased amortization, additional collateral, increased guarantees, and/or a cash flow sweep. As previously mentioned, some maturing construction loans have automatic extension options built in and in those cases where the borrower qualifies for the extension option, pricing and loan terms cannot be altered. Most project loans by their nature are collateral-dependent as cash flow from the project loans or the sale of the real estate provides for repayment of the loan.

Pricing of a loan is determined based on the strength of the borrowing entity and the strength of the guarantor if any. Therefore, pricing may remain the same (e.g., the loan is already priced at or above current market). We do not consider loan extensions in the normal course of business (under existing loan terms or at market rates) as TDRs, particularly when ultimate collection of all principal and interest is not in doubt and no concession has been made. In the case of loan extensions outside of the normal course of business where either collection of all principal and interest is uncertain or a concession has been made, we would analyze such credit under the accounting guidance to determine whether it qualifies as a TDR. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

Guarantors

A detailed guarantor analysis is conducted (1) for all new extensions of credit, (2) at the time of any material modification/extension, and (3) typically annually, as part of our on-going portfolio and loan monitoring procedures. This analysis includes submission by the guarantor entity of all appropriate financial statements including balance sheets, income statements, tax returns, and real estate schedules.

While the specific steps of each guarantor analysis may have some minor differences, the high level objectives include reaching a conclusion regarding the overall financial conditions of the guarantor entities, including: size, quality, and nature of asset base;

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net worth (adjusted to reflect our opinion of market value); leverage; standing liquidity; recurring cash flow; contingent and direct debt obligations; and near term debt maturities.

Borrower and guarantor financial statements are required at least annually within 90-120 days of the calendar/fiscal year end. Income statements and rent rolls for project collateral are required quarterly. In some cases, disclosure of certain information including liquidity, certifications, status of asset sales or debt resolutions, and real estate schedules may be required more frequently.

We routinely seek performance from guarantors of impaired debt, if the guarantor is solvent. In limited circumstances, we would not seek to enforce the guaranty, including situations in which we are precluded by bankruptcy and/or it is determined the cost to pursue a guarantor exceeds the value to be returned given the guarantor s verified financial condition. We are often successful in obtaining either monetary payment and/or the cooperation of our solvent guarantors to help mitigate loss, cost and the expense of collections.

As of December 31, 2010, we had $507 million of mortgage and construction loans that had a loan to value ratio greater than 1.0 and were accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; a satisfactory borrower payment history; and acceptable guarantor support.

Consumer loan portfolio

Consumer loans outstanding decreased by $1.3 billion, or 8%, from one year ago. As shown in Figure 41 in the Credit risk management section, the majority of the reduction came from our exit loan portfolio. Most of the decrease is attributable to the marine segment.

The home equity portfolio is the largest segment of our consumer loan portfolio. Virtually all of this portfolio (93% at December 31, 2010) is derived primarily from the Regional Banking line of business within our Key Community Bank. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans within Key Community Bank decreased by $534 million, or 5%, over the past twelve months.

Figure 21 summarizes our home equity loan portfolio by source at the end of each of the last five years, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 21. Home Equity Loans

December 31, *dollars in millions*	**2010**	2009	2008	2007	2006
SOURCES OF YEAR-END LOANS					
Key Community Bank	**$ 9,514**	$ 10,048	$ 10,124	$ 9,655	$ 9,805
Other	**666**	838	1,051	1,262	1,021
Total	**$ 10,180**	$ 10,886	$ 11,175	$ 10,917	$ 10,826
	$ 120	$ 128	$ 91	$ 66	$ 50

Nonperforming loans at year end					
Net loan charge-offs for the year	**175**	165	86	33	23
Yield for the year[(a)]	**4.45 %**	4.63 %	5.93 %	7.17 %	7.07 %

(a) From continuing operations.

As previously reported, we have experienced a decrease in our consumer loan portfolio. We expect the portfolio continue to decrease in future periods as a result of our actions to exit dealer-originated home equity loans and indirect retail lending for marine and recreational vehicle products, and discontinue the education lending business. We ceased originating new education loans effective December 5, 2009 and account for this business in discontinued operations.

In the latter half of 2010, there has been public controversy surrounding the foreclosure practices of large home lenders. Our number of home loan foreclosures is small (the average number of new mortgage foreclosures serviced by Key and third parties, initiated per month, through December 31, 2010 is 140, compared to approximately 238,000 such mortgage loans) and primarily have occurred in our home equity loan portfolio. A review of our foreclosure processes (which is still ongoing) has not uncovered any material defects in the process of signing and notarizing affidavits.

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Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale increased to $467 million at December 31, 2010 from $443 million at December 31, 2009. Loans held for sale related to the discontinued operations of the education lending business, which are excluded from total loans held for sale at December 31, 2010 and December 31, 2009, totaled $15 million and $434 million, respectively.

At December 31, 2010, loans held for sale included $118 million of commercial mortgages which decreased by $53 million from December 31, 2009, and $110 million of residential mortgage loans which decreased by $29 million from December 31, 2009. In the absence of quoted market prices, we use valuation models to measure the fair value of these loans and adjust the amount recorded on the balance sheet if fair value falls below recorded cost. The models are based on third-party data, as well as assumptions related to prepayment speeds, default rates, funding cost, discount rates and other relevant market available inputs. In light of the volatility in the financial markets, we have reviewed our assumptions and determined that they reflect current market conditions. As a result, no significant adjustments to our assumptions were required during 2010.

During 2010, we recorded net unrealized losses of $10 million and net realized gains of $44 million on our loans held for sale portfolio. These net gains are reported in net gains (losses) from loan sales on the income statement. We have not been significantly impacted by market volatility in the subprime mortgage lending industry, having exited this business in the fourth quarter of 2006.

Loan sales

As shown in Figure 22, during 2010, we sold $1.2 billion of commercial real estate loans, $1.6 billion of residential real estate loans, $370 million of commercial loans and $64 million of commercial lease financing. Most of these sales came from the held-for-sale portfolio. Additionally, we sold $487 million of education loans (included in discontinued assets on the balance sheet), which are excluded from Figure 22. Due to unfavorable market conditions, we have not securitized any education loans since 2006.

Among the factors that we consider in determining which loans to sell are:

- whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;
- our A/LM needs;
- the cost of alternative funding sources;
- the level of credit risk;
- capital requirements; and
- market conditions and pricing.

Figure 22 summarizes our loan sales for 2010 and 2009.

Figure 22. Loans Sold (Including Loans Held for Sale)

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Consumer Other	Total
2010						
Fourth quarter	**$ 171**	**$ 530**	**$ 29**	**$ 525**		**$ 1,255**
Third quarter	**105**	**200**	**35**	**372**		**712**
Second quarter	**75**	**336**		**348**		**759**
First quarter	**19**	**158**		**328**		**505**
Total	**$ 370**	**$ 1,224**	**$ 64**	**$ 1,573**		**$ 3,231** [(a)]
2009						
Fourth quarter	$ 225	$ 440		$ 315	$ 5	$ 985
Third quarter	47	275		514		836
Second quarter	22	410		410		842
First quarter	9	192		302		503
Total	$ 303	$ 1,317		$ 1,541	$ 5	$ 3,166 [(a)]

(a) Excludes education loans of $487 million sold during 2010 and $474 million sold during 2009 that relate to the discontinued operations of the education lending business.

Figure 23 shows loans that are either administered or serviced by us but not recorded on the balance sheet. The table includes loans that have been sold.

Figure 23. Loans Administered or Serviced

December 31, *in millions*	2010	2009	2008	2007	2006
Commercial real estate loans[(a)]	**$ 117,071**	$ 123,599	$ 123,256	$ 134,982	$ 93,611
Education loans[(b)]		3,810	4,267	4,722	5,475
Home equity loans[(c)]					2,360
Commercial lease financing	**706**	649	713	790	479
Commercial loans	**269**	247	208	229	268
Total	**$ 118,046**	$ 128,305	$ 128,444	$ 140,723	$ 102,193

(a) We acquired the servicing for commercial mortgage loan portfolios with an aggregate principal balance of $1.6 billion during 2010, $7.2 billion during 2009, $1 billion during 2008, $45.5 billion during 2007 and $16.4 billion for 2006.

(b) We adopted new accounting guidance on January 1, 2010, which required us to consolidate our education loan securitization trusts and resulted in the addition of approximately $2.8 billion of assets, liabilities and equity to our balance sheet. Of this amount, $890 million were included in our net risk-weighted assets under current federal banking regulations.

(c) In November 2006, we sold the $2.5 billion subprime mortgage loan portfolio held by the Champion Mortgage finance business but continued to provide servicing through various dates in March 2007.

In the event of default by a borrower, we are subject to recourse with respect to approximately $736 million of the $118 billion of loans administered or serviced at December 31, 2010. Additional information about this recourse arrangement is included in Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of commercial real estate loans. Additional information about our mortgage servicing assets is included in Note 9 (Mortgage Servicing Assets).

Maturities and sensitivity of certain loans to changes in interest rates

Figure 24 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2010, approximately 38% of these outstanding loans were scheduled to mature within one year.

Figure 24. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates

December 31, 2010 *in millions*		**Within One Year**		**One - Five Years**		**Over Five Years**		**Total**
Commercial, financial and agricultural	**$**	**6,995**	$	8,003	$	1,443	$	16,441
Real estate construction		**1,228**		732		146		2,106
Real estate residential and commercial mortgage		**3,267**		4,301		3,796		11,364
	$	**11,490**	$	13,036	$	5,385	$	29,911